NeuroMetrix, Inc.
Form 10-Q
April 24, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2014

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____ to ____

Commission File Number 001-33351

_____

NEUROMETRIX, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3308180**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

62 Fourth Avenue, Waltham, Massachusetts	**02451**
(Address of principal executive offices)	(Zip Code)

(781) 890-9989

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

5,945,581 shares of common stock, par value $0.0001 per share, were outstanding as of April 16, 2014.

NeuroMetrix, Inc.

Form 10-Q

Quarterly Period Ended March 31, 2014

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

NeuroMetrix, Inc.

Balance Sheets

(Unaudited)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$7,583,538	$9,195,753
Accounts receivable, net	530,666	390,922
Inventories	665,695	563,036
Prepaid expenses and other current assets	476,407	416,816
Total current assets	9,256,306	10,566,527
Fixed assets, net	198,463	229,313
Other long-term assets	869	923
Total assets	$9,455,638	$10,796,763
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$577,986	$322,896
Accrued compensation	536,693	386,004
Accrued expenses	791,641	870,196
Current portion of deferred revenue	63,492	68,812
Total current liabilities	1,969,812	1,647,908
Deferred revenue, net of current portion	14,963	15,277
Common stock warrants	1,424,003	1,938,603
Total liabilities	3,408,778	3,601,788
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized, none outstanding	—	—
Common stock, $0.0001 par value; 50,000,000 shares authorized; 5,945,581 shares issued and outstanding at March 31, 2014 and December 31, 2013	595	595
Additional paid-in capital	153,882,944	153,806,460
Accumulated deficit	(147,836,679)	(146,612,080)
Total stockholders' equity	6,046,860	7,194,975

Total liabilities and stockholders' equity	$9,455,638	$10,796,763

The accompanying notes are an integral part of these interim financial statements.

NeuroMetrix, Inc.

Statements of Operations

(Unaudited)

	Quarters Ended March 31,	
	2014	**2013**
Revenues	$1,331,537	$1,401,454
Cost of revenues	615,081	569,784
Gross profit	716,456	831,670
Operating expenses:		
Research and development	863,718	1,073,419
Sales and marketing	446,216	779,841
General and administrative	1,146,757	1,233,594
Total operating expenses	2,456,691	3,086,854
Loss from operations	(1,740,235)	(2,255,184)
Interest income	1,036	1,769
Change in fair value of warrant liability	514,600	—
Net loss	$(1,224,599)	$(2,253,415)
Net loss per common share, basic and diluted	$(0.21)	$(1.06)
Weighted average number of common shares outstanding, basic and diluted	5,931,134	2,131,745

The accompanying notes are an integral part of these interim financial statements.

NeuroMetrix, Inc.

Statements of Cash Flows

(Unaudited)

	Quarters Ended March 31,	
	2014	**2013**
Cash flows from operating activities:		
Net loss	$(1,224,599)	$(2,253,415)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	34,965	41,156
Stock-based compensation	76,484	63,155
Inventory charges	—	25,699
Change in fair value of warrant liability	(514,600)	—
Changes in operating assets and liabilities:		
Accounts receivable	(139,744)	33,631
Inventories	(102,659)	14,162
Prepaid expenses and other current assets	60,186	56,378
Accounts payable	135,090	(31,491)
Accrued expenses and compensation	72,133	265,733
Deferred revenue, deferred costs, and other	(5,356)	(16,950)
Net cash used in operating activities	(1,608,100)	(1,801,942)
Cash flows from investing activities:		
Purchases of fixed assets	(4,115)	(6,064)
Net cash used in investing activities	(4,115)	(6,064)
Cash flows from financing activities:		
Payments on capital lease	—	(5,281)
Net cash (used in) provided by financing activities	—	(5,281)
Net decrease in cash and cash equivalents	(1,612,215)	(1,813,287)
Cash and cash equivalents, beginning of period	9,195,753	8,699,478
Cash and cash equivalents, end of period	$7,583,538	$6,886,191
Supplemental disclosure of cash flow information:		
Common stock issued to settle incentive compensation obligation	$—	$285,296

The accompanying notes are an integral part of these interim financial statements.

NeuroMetrix, Inc.

Notes to Unaudited Financial Statements

March 31, 2014

1. Business and Basis of Presentation

Our Business-An Overview

NeuroMetrix, Inc., or the Company, a Delaware corporation, was founded in June 1996. The Company is an innovative health-care company that develops wearable medical technology and point-of-care diagnostic tests to help patients and physicians better manage chronic pain, nerve diseases, and sleep disorders. The Company believes that there are large and important unmet needs in the treatment of diabetic neuropathies and adjacent forms of chronic pain such as fibromyalgia, post herpetic neuropathy (shingles), and conditions with both chronic pain and disturbed sleep such as restless leg syndrome. With substantial experience in medical devices to measure and alter peripheral nerve function, the Company believes it is well positioned to address these unmet needs through the development of novel proprietary medical devices. Accordingly, the Company has a major focus on developing and marketing medical devices for diabetic neuropathies. The Company has over a decade of experience in neuropathy detection starting with approval in 1998 by the United States Food and Drug Administration, or FDA, of the NC-stat System, a point-of-care device for the performance of general purpose nerve conduction studies.

In 2013 the Company launched the SENSUS™ Pain Management System, or SENSUS, a wearable transcutaneous electrical nerve stimulator indicated for management of chronic pain, and is the only device cleared by the FDA for use during sleep. It markets SENSUS to physicians managing patients with painful diabetic neuropathy and other forms of chronic pain. The Company also markets the NC-stat® DPNCheck® device, which is a fast, accurate, and quantitative nerve conduction test used to evaluate systemic neuropathies such as diabetic peripheral neuropathy, or DPN. NC-stat DPNCheck is designed to be used by physicians and other clinicians at the point-of-care to objectively detect, stage, and monitor DPN. The Company's historical neurodiagnostic business is based on the ADVANCE™ NCS/EMG System, or the ADVANCE System, which is a comprehensive platform for the performance of traditional nerve conduction studies and invasive electromyography procedures and which is primarily used in physician offices and clinics. While the ADVANCE System contributes to the Company's revenues, the Company is not actively managing the ADVANCE business for growth.

The Company held cash and cash equivalents of $7.6 million as of March 31, 2014. The Company believes that these resources and the cash to be generated from expected product sales will be sufficient to meet its projected operating requirements into the second quarter of 2015. The Company continues to face significant challenges and uncertainties and, as a result, the Company's available capital resources may be consumed more rapidly than currently expected due to (a) unanticipated decreases in sales of the Company's products and the uncertainty of future revenues from the

Company's new products; (b) changes the Company may make to the business that affect ongoing operating expenses; (c) changes the Company may make in its business strategy; (d) regulatory developments affecting the Company's existing products and delays in the FDA approval process for products under development; (e) changes in the Company's research and development spending plans; and (f) other items affecting the Company's forecasted level of expenditures and use of cash resources. Accordingly, the Company will need to raise additional funds to support its operating and capital needs for the second quarter of 2015 and beyond. The Company may attempt to obtain additional funding through public or private financing, collaborative arrangements with strategic partners, or through additional credit lines or other debt financing sources to increase the funds available to fund operations. However, the Company may not be able to secure such financing in a timely manner or on favorable terms, if at all. Furthermore, if the Company issues equity or debt securities to raise additional funds, its existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of the Company's existing stockholders. If the Company raises additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to its potential products or proprietary technologies, or grant licenses on terms that are not favorable to the Company. Without additional funds, the Company may be forced to delay, scale back or eliminate some of its sales and marketing efforts, research and development activities, or other operations and potentially delay product development in an effort to provide sufficient funds to continue its operations. If any of these events occur, the Company's ability to achieve its development and commercialization goals would be adversely affected.

Unaudited Interim Financial Statements

The accompanying unaudited balance sheet as of March 31, 2014, unaudited statements of operations for the quarters ended March 31, 2014 and 2013 and the unaudited statements of cash flows for the quarters ended March 31, 2014 and 2013 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the financial statements include all normal and recurring adjustments considered necessary for a fair statement of the Company's financial position and operating results. Operating results for the quarter ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or any other period. These financial statements and notes should be read in conjunction with the financial statements for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, or the SEC, on February 24, 2014 (File No. 001-33351), or the Company's 2013 Form 10-K. The accompanying balance sheet as of December 31, 2013 has been derived from audited financial statements prepared at that date, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Revenues

The Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, delivery has occurred and risk of loss has passed, the seller's price to the buyer is fixed or determinable, and collection is reasonably assured.

Revenues associated with the sale of the ADVANCE devices to customers and distributors are recognized upon shipment, provided that the selling price is fixed or determinable, persuasive evidence of an arrangement exists, collection of receivables is reasonably assured, product returns are reasonably estimable, and no continuing obligations exist. The revenues from the sale of an ADVANCE communication hub together with access to NeuroMetrix information systems are considered one unit of accounting and deferred and recognized on a straight-line basis over the estimated period of time that the Company provides the service associated with the information systems of three years. The resulting deferred revenue and deferred costs are presented as separate line items on the accompanying balance sheet. Revenues related to extended service agreements for the devices are recognized ratably over the term of the extended service agreement.

Revenues associated with the sale of the SENSUS and NC-stat DPNCheck devices are recognized upon shipment, provided that the selling price is fixed or determinable, persuasive evidence of an arrangement exists, collection of receivables is reasonably assured, product returns are reasonably estimable, and no continuing obligations exist.

Revenues also include sales of consumables, including single use nerve specific electrodes and other accessories. These revenues are recognized upon shipment provided that the selling price is fixed or determinable, persuasive evidence of an arrangement exists, collection of receivables is reasonably assured, and product returns are reasonably estimable.

When multiple elements are contained in a single arrangement, the Company allocates revenue between the elements based on their relative selling prices. The Company determines selling price using vendor specific objective evidence, or VSOE, if it is available, third-party evidence, or TPE, if VSOE is not available, and best estimate of selling price, or BESP, if neither VSOE nor TPE are available. The Company generally expects that it will not be able to establish TPE due to the nature of the markets in which it competes, and, as such, it will typically determine selling price using VSOE or if not available, BESP. The objective of BESP is to determine the selling price of a deliverable on a standalone basis. The Company's determination of BESP involves a weighting of several factors based on the specific facts and circumstances of an arrangement. Specifically, the Company considers the cost to produce the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts, its ongoing pricing strategy, the value of any enhancements that have been built into the deliverable, and the characteristics of the varying markets in which the deliverable is sold.

Revenue recognition involves judgments, including assessments of expected returns and expected customer relationship periods. The Company analyzes various factors, including a review of specific transactions, its historical returns, average customer relationship periods, customer usage, customer balances, and market and economic conditions. Changes in judgments or estimates on these factors could materially impact the timing and amount of revenues and costs recognized. Should market or economic conditions deteriorate, the Company's actual return or bad debt experience could exceed its estimate.

Certain product sales are made with a 30-day right of return. Since the Company can reasonably estimate future returns, it recognizes revenues associated with product sales that contain a right of return upon shipment and at the same time it records a sales return reserve, which reduces revenue and accounts receivable by the amount of estimated returns.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during reporting periods. Actual results could differ from those estimates.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements since the recent accounting pronouncements described in the Company's 2013 Form 10-K that are of significance to the Company.

2. Comprehensive Loss

For the quarters ended March 31, 2014 and 2013, the Company had no components of other comprehensive income or loss other than net loss itself.

3. Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Unvested restricted shares, although legally issued and outstanding, are not considered outstanding for purposes of calculating basic net income per share. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period plus the dilutive effect of the weighted average number of outstanding instruments such as options, warrants, and restricted stock. Because the Company has reported a net loss for all periods presented, diluted loss per common share is the same as basic loss per common share, as the effect of utilizing the fully diluted share count would have reduced the net loss per common share. Therefore, in calculating net loss per share amounts, shares underlying the following potentially

dilutive weighted average number of common stock equivalents were excluded from the calculation of diluted net income per common share because their effect was anti-dilutive for each of the periods presented:

	Quarters Ended March 31,	
	2014	2013
Options	314,443	51,169
Warrants	1,839,278	781,955
Unvested restricted stock	14,447	34,303
Total	2,168,168	867,427

4. Inventories

Inventories consist of the following:

	March 31, 2014	December 31, 2013
Purchased components	$285,218	$ 205,320
Finished goods	380,477	357,716
	$665,695	$ 563,036

5. Accrued Expenses

Accrued expenses consist of the following:

	March 31, 2014	December 31, 2013
Technology fees	$450,000	$ 450,000
Professional services	178,847	263,642
Clinical study obligations	28,425	51,424
Sales taxes	32,167	32,688
Other	102,202	72,442
	$791,641	$ 870,196

6. Commitments and Contingencies

Operating Lease

In June 2013, the Company amended the Lease Agreement dated October 18, 2000 between Fourth Avenue LLC and the Company for office and engineering laboratory space to extend the term of the lease through March 31, 2015. Base rent for the period January 2014 through March 2015 is $52,917 per month.

7. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the Codification defines fair value, establishes a framework for measuring fair value in applying generally accepted accounting principles, and expands disclosures about fair value measurements. This Codification topic identifies two kinds of inputs that are used to determine the fair value of assets and liabilities: observable and unobservable. Observable inputs are based on market data or independent sources while unobservable inputs are based on the Company's own market assumptions. Once inputs have been characterized, this Codification topic requires companies to prioritize the inputs used to measure fair value into one of three broad levels. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values identified by Level 2 inputs utilize observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities. Fair values identified by Level 3 inputs are unobservable data points and are used to measure fair value to the extent that observable inputs are not available. Unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use at pricing the asset or liability.

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis for the periods presented and indicates the fair value hierarchy of the valuation techniques it utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

	March 31, 2014	Fair Value Measurements at March 31, 2014 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$2,425,732	$2,425,732	$ —	$ —
Total	$2,425,732	$2,425,732	$ —	$ —
Liabilities:				
Common stock warrants	$1,424,003	$—	$ —	$ 1,424,003
Total	$1,424,003	$—	$ —	$ 1,424,003

	December 31, 2013	Fair Value Measurements at December 31, 2013 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$3,926,600	$3,926,600	$ —	$ —
Total	$3,926,600	$3,926,600	$ —	$ —
Liabilities:				
Common stock warrants	$1,938,603	$—	$ —	$ 1,938,603
Total	$1,938,603	$—	$ —	$ 1,938,603

Due to the lack of market quotes relating to our common stock warrants, the fair value of the common stock warrants was determined at March 31, 2014 using the Black-Scholes model, which is based on Level 3 inputs. As of March 31, 2014, inputs used in the Black-Scholes model include our stock price as of that date of $2.34, exercise price of $2.00, expected volatility of 69.30%, risk free interest rate of 1.73%, expected term of approximately four years and 2 months, and no dividends. The assumptions used may change as the underlying sources of these assumptions and market conditions change. Based on this calculation, the Company recorded a common stock warrants liability of $1.4 million at March 31, 2014. The Company recorded a common stock warrants liability of $1.9 million at December 31, 2013.

As of December 31, 2013, inputs used in the Black-Scholes model include our stock price as of that date of $2.92, exercise price of $2.00, expected volatility of 67.60%, risk free interest rate of 1.71%, expected term of approximately four years and 5 months, and no dividends. Based on this calculation, the Company recorded a common stock warrants liability of $1.9 million at December 31, 2013. In addition, 1.3 million warrants were exercised during the fourth quarter of 2013 and these warrants were adjusted to their fair value at the dates of exercise. The total liability for the exercised warrants of $2.4 million was then reclassified to additional paid-in capital.

8. Credit Facility

The Company is party to a Loan and Security Agreement, or the Credit Facility, with a bank. As of March 31, 2014, the Credit Facility permitted the Company to borrow up to $2.5 million on a revolving basis. The Credit Facility was amended and extended on January 31, 2014 until January 15, 2015. Under terms of the amended and extended Agreement the amount of the Credit Facility will remain at $2.5 million until December 31, 2014. Thereafter, until its expiry on January 15, 2015, the Credit Facility will be reduced to $750,000 if the Company has not yet completed an equity offering as defined in the Agreement. Amounts borrowed under the Credit Facility will bear interest equal to the prime rate plus 0.5%. Any borrowings under the Credit Facility will be collateralized by the Company’s cash, accounts receivable, inventory, and equipment. The Credit Facility includes traditional lending and reporting covenants. These include certain financial covenants applicable to liquidity that are to be maintained by the Company. As of March 31, 2014, the Company was in compliance with these covenants and had not borrowed any funds under the Credit Facility. The amount of $225,000 of the Credit Facility limit is restricted to support a letter of credit issued in favor of the Company’s landlord in the lease of its facilities in Waltham, Massachusetts. Consequently, the amount available for borrowing under the Credit Facility as of March 31, 2014 was $2,275,000.

9. Stockholders' Equity

Public Offerings of Common Stock and Warrants

On June 4, 2013, the Company entered into a Purchase Agreement providing for the issuance of (i) 248,147 shares of common stock at a price of $2.095 per share, (ii) 1,066.254 shares of Series A-1 Preferred Stock at a price of $1,000 per share, (iii) 3,370.510 shares of Series A-2 Preferred Stock at a price of $1,000 per share, and (iv) five year warrants to purchase up to 2,365,934 shares of common stock with an exercise price of $2.00 per share (the "2013 Offering"). The 2013 Offering resulted in approximately $5.0 million in gross proceeds, before deducting placement agent fees and other expenses. Net proceeds from the 2013 Offering were approximately $4.5 million.

Each share of Preferred Stock had a stated value of $1,000 and was convertible at the option of the holder into the number of shares of common stock determined by dividing the stated value by the initial conversion price of $2.095, which was subject to adjustment as provided in each Certificate of Designation for the Preferred Stock. The Preferred Stock had no dividend rights, liquidation preference or other preferences over common stock and had no voting rights except as provided in each Certificate of Designation for the Preferred Stock and as required by law. During the second half of 2013, all of the Series A-1 Preferred Stock and Series A-2 Preferred Stock was converted into a total of 2,117,787 shares of common stock. The warrants to purchase 2,365,934 shares of common stock were exercisable immediately, have a five-year term, and a per share exercise price of $2.00. During the fourth quarter of 2013, warrants to purchase 1,308,611 shares of common stock were exercised and the same number of shares of common stock was issued. Proceeds from these exercises totaled $2.6 million.

The terms and conditions of the Preferred Stock were evaluated based on the guidance of the Derivatives and Hedging topic of the Codification to determine if the conversion feature was an embedded derivative requiring bifurcation. It was concluded that bifurcation was not required because the conversion feature was clearly and closely related to the Preferred Stock. The conversion price at which shares of Preferred Stock were convertible into shares of common stock was determined to be lower than the fair value of common stock at the date of the Purchase Agreement. This "in-the-money" beneficial conversion feature, or BCF, required separate recognition and measurement of its intrinsic value (i.e., the amount of the increase in value that holders of Preferred Stock would realize upon conversion based on the value of the conversion shares on the date of the Purchase Agreement). The BCF measurement totaled $766,900, an amount limited by the transaction proceeds which had been allocated to the Preferred Stock. Because there was not a stated redemption date for the shares of Preferred Stock, the BCF was recognized as a deemed dividend attributable to the Preferred Stock and is reflected as an adjustment in the calculation of earnings per share.

The warrants issued in connection with the 2013 Offering are within the scope of the Derivatives and Hedging topic of the Codification. This Codification topic requires issuers to classify as liabilities (or assets under certain circumstances) financial instruments which require an issuer to settle in registered shares. As the warrants are required to be settled in registered shares when exercised, the Company has reflected the warrants as a liability in the balance sheet. The fair value of the warrants at the date of the 2013 Offering was estimated at $4.0 million using a

Black-Scholes model with the following assumptions: stock price of $2.60, exercise price of $2.00, expected volatility of 73.6%, risk free interest rate of 1.05%, expected term of five years, and no dividends. The warrants were revalued at June 30, 2013, September 30, 2013, December 31, 2013, and March 31, 2014 using the same Black-Scholes model. The liability for the remaining 1,057,323 warrants was reflected in the balance sheet at March 31, 2014 in the amount of $1.4 million. The Company will continue to revalue unexercised warrants at each reporting period over the life of the warrants using the Black-Scholes model and the changes in the fair value of the warrants will be recognized in the Company's statement of operations.

In March 2013, the Company issued an aggregate of 119,370 shares of fully vested common stock with a value of $285,300 in partial settlement of 2012 management incentive compensation. The shares issued reflected the $2.39 closing price of the Company's common stock as reported on the NASDAQ Capital Market on March 4, 2013. Management incentive compensation for 2013 has been approved by the Board of Directors and is planned to be partially settled in the form of 41,327 fully vested shares of the Company's common stock during April 2014.

All share, per share, and stock option amounts for all periods presented within this quarterly report on Form 10-Q and the amounts for common stock and additional paid-in-capital have been retroactively adjusted to reflect a one share for six shares reverse stock split that occurred on February 15, 2013.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with our financial statements and the accompanying notes to those financial statements included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. For a description of factors that may cause our actual results to differ materially from those anticipated in these forward-looking statements, please refer to the below section of this Quarterly Report on Form 10-Q titled "Cautionary Note Regarding Forward-Looking Statements." Unless the context otherwise requires, all references to "we", "us", the "Company", or "NeuroMetrix" in this Quarterly Report on Form 10-Q refer to NeuroMetrix, Inc.

Overview

NeuroMetrix is an innovative health-care company that develops wearable medical technology and point-of-care tests to help patients and physicians manage chronic pain, nerve disease, and associated sleep disorders. Our Company was founded in 1996 and has been publicly traded on NASDAQ since 2004. The Company's technology foundation was built at Harvard Medical School and the Massachusetts Institute of Technology. It is employed in numerous FDA-cleared products that have been used by physicians in over 6 million diagnostic tests of nerve function. We have an intellectual property base that encompasses 64 issued and pending patents and extensive, difficult to replicate know-how in our practice area. We have an experienced management team and Board of Directors, and we are strategically located in the greater Boston area.

One of our primary markets is the management and treatment of the neurological complications of diabetes. People with diabetes do not effectively regulate their blood glucose, or sugar, levels leading to chronically high levels of glucose in the blood, called hyperglycemia, and occasionally bouts of low glucose in the blood, called hypoglycemia. The primary reason that glucose levels are not effectively regulated in people with diabetes is that those with the disease do not produce insulin (Type I diabetes) or are resistant to the normal physiological action of insulin (Type II diabetes). Many Type II diabetics eventually require insulin because production of the hormone by their pancreas decreases with time. Type I diabetes usually affects children and teenagers whereas Type II diabetes has typically been a disease of adults over the age of 50. However, over the past decade, Type II diabetes is occurring in younger adults, which may be attributable to higher levels of obesity in this age group.

We believe that there are large and important unmet needs in the treatment of diabetic neuropathies and adjacent forms of chronic pain such as fibromyalgia, post herpetic neuropathy (shingles), and conditions with both chronic pain and disturbed sleep such as restless leg syndrome. As a medical device company with both unique and substantial experience in devices to measure and alter peripheral nerve function, we believe we are well positioned to address these unmet needs through the development of novel proprietary medical devices. Accordingly, we have a major focus on developing and marketing medical devices for diabetic neuropathies. We believe that we are the only medical device company with a strategic focus on the diabetic neuropathy market and our goal is to be the dominant player in

this field.

During the past three years we have launched two products with the potential to change medical practice. SENSUS, our wearable transcutaneous electrical nerve stimulator indicated for management of chronic pain, and the only device cleared by the FDA for use during sleep, was launched in early 2013. We market SENSUS to physicians managing patients with painful diabetic neuropathy, or PDN, and other forms of chronic pain. The prevalence of PDN is 16 – 26% of people with diabetes representing a 3 - 5 million patient group. We are building demand by contracting with independent durable medical equipment, or DME, suppliers employing sales representatives who detail physicians. Physician prescriptions are fulfilled by the DME suppliers who maintain a stock of SENSUS devices and consumables

NC-stat DPNCheck, our point-of-care neuropathy test for accurate and cost-effective screening, diagnosing and monitoring of peripheral neuropathies such as diabetic peripheral neuropathy, was launched in late 2011. Revenues were approximately $1.3 million in 2013 and were $278,000 for the quarter ended March 31, 2014. Our sales efforts in the U.S. market are focused on Medicare Advantage providers who assume financial responsibility and the associated risks for the health care costs of their patients. For Medicare Advantage providers, we believe that NC-stat DPNCheck presents a compelling clinical case with early detection of neuropathy allowing for earlier clinical intervention to help mitigate the effects of neuropathy on both patient quality of life and cost of care. Also, the diagnosis and documentation of neuropathy provided by NC-stat DPNCheck helps clarify the patient health profile which, in turn, may have a direct, positive effect on the Medicare Advantage premium received by the provider. Outside of the U.S. we are working with Omron Healthcare on obtaining regulatory approval in Japan and launch of NC-stat DPNCheck in that market is now targeted for the second quarter of 2014. Other attractive international market opportunities include China where we are also working with Omron Healthcare, and the Middle East and Mexico which we are addressing with local distributors.

We manage our historical neurodiagnostics business, centered on the ADVANCE System, for cash flow and not growth. This business generated $3.8 million in revenue during 2013 and $858,000 for the quarter ended March 31, 2014 and has few direct cash operating expenses. We expect this line of our business will continue to decline in the future.

Results of Operations

Comparison of Quarters Ended March 31, 2014 and 2013

Revenues

The following table summarizes our revenues:

	Quarters Ended March 31,			
	2014	2013	Change	% Change
	(in thousands)			
Revenues	$1,331.5	$1,401.5	$(70.0)	(5.0)%

Revenues include sales from SENSUS, our therapeutic device for relief of chronic, intractable pain; NC-stat DPNCheck, our diagnostic test for DPN; and our legacy ADVANCE neurodiagnostics business. During the first quarter of 2014, we shipped approximately 1,450 SENSUS devices plus consumable electrodes and recorded revenue of approximately $195,000 compared to 145 devices and $34,000 in revenue recorded in the first quarter in 2013. In the first quarter of 2014 we recorded revenue of $278,000 from sales of NC-stat DPNCheck devices and consumable biosensors. This was in comparison with $315,000 in revenue recorded in the first quarter of 2013, including $140,000 revenue from an initial sale to a distributor in South Korea. Revenues also include sales from our ADVANCE neurodiagnostic products totaling $858,000 in the first quarter of 2014, compared to $1.1 million in the first quarter of 2013. The decline in ADVANCE revenue continues the historical trend for this product line has limited direct operating expenses and which we manage for cash flow.

Cost of Revenues and Gross Profit

The following table summarizes our cost of revenues and gross profit:

	Quarters Ended March 31,				
	2014	2013	Change	% Change	
	(in thousands)				
Cost of revenues	$615.1	$569.8	$45.3	8.0	%
Gross profit	$716.4	$831.7	$(115.3)	(13.9	)

Our cost of revenues increased to $615,100 in the first quarter of 2014, compared to $569,800 in the first quarter of 2013. Gross margin decreased to 53.8% in the first quarter of 2014 from 59.3% in the first quarter of 2013. The decline in gross margin was due to a shift in product mix to lower margin SENSUS devices and to increased manufacturing costs associated with higher production. We expanded our manufacturing headcount during the quarter and incurred training costs and inefficiencies while building higher SENSUS and NC-stat DPNCheck inventory levels.

Operating Expenses

The following table presents a breakdown of our operating expenses:

	Quarters Ended March 31,				
	2014	2013	Change	% Change	
	(in thousands)				
Operating expenses:					
Research and development	$863.7	$1,073.4	$(209.7)	(19.5	)%
Sales and marketing	446.2	779.8	(333.6)	(42.8	)
General and administrative	1,146.8	1,233.6	(86.8)	(7.0	)
Total operating expenses	$2,456.7	$3,086.8	$(630.1)	(20.4	)

Research and Development

Research and development expenses for the quarters ended March 31, 2014 and 2013 were $863,700 and $1.1 million, respectively. The reduction of $209,700 included a decrease of personnel costs of $70,100 due to lower headcount. Costs related to company-sponsored clinical studies for NC-stat DPNCheck decreased by $117,600 reflecting the timing of clinical studies underway. Professional fees decreased by $23,400, offset by a $10,400 increase in consulting and temporary services.

Sales and Marketing

Sales and marketing expenses decreased to $446,200 for the quarter ended March 31, 2014 from $779,800 for the quarter ended March 31, 2013. The reduction of $333,600 included the effects of lower headcount and personnel related costs totaling $225,100. In addition, advertising and promotional costs decreased by $38,500, and supplies and equipment spending decreased by $22,900.

General and Administrative

General and administrative expenses decreased by $86,800 to $1.2 million for the quarter ended March 31, 2014 compared to the prior year quarter. This decrease was primarily attributable to bad debt expense which was $65,000 lower in the first quarter of 2014 reflecting our assessment of an overall improvement in the quality of accounts receivable.

Interest Income

Interest income was approximately $1,000 and $2,000 for the quarters ended March 31, 2014 and 2013, respectively. Interest income was earned from investments in cash equivalents.

Change in fair value of warrant liability

The change in fair value of warrant liability of $514,600 relates to the revaluation of warrants from the fair value of $1.9 million estimated at December 31, 2013 to $1.4 million at March 31, 2014. The Black-Scholes model is utilized in calculating the fair value of the warrant liability. The lower fair value at March 31, 2014 reflects our lower stock price at March 31, 2014 compared to December 31, 2013, as well as the shorter remaining term of the warrants.

Liquidity and Capital Resources

Our principal source of liquidity is our cash and cash equivalents. As of March 31, 2014, cash and cash equivalents totaled $7.6 million. Our ability to generate revenue to fund our operations will largely depend on the success of our diabetes products and management of our legacy neurodiagnostic business to optimize cash flow. A low level of market interest in NC-stat DPNCheck or SENSUS, an accelerated decline in our neurodiagnostics consumables sales, or unanticipated increases in our operating costs would have an adverse effect on our liquidity and cash generated from operations. The following table sets forth information relating to our cash and cash equivalents:

	March 31, 2014	December 31, 2013	Change	% Change
	($ in thousands)			
Cash and cash equivalents	$7,583.5	$ 9,195.8	$(1,612.3)	(17.6)%

In order to supplement our access to capital, we are party to an amended Loan and Security Agreement, with a bank which provides us with a credit facility in the amount of $2.5 million, or the Credit Facility. The amended Credit Facility expires on January 31, 2015. Under terms of the amended and extended Credit Facility the amount of the Credit Facility will remain at $2.5 million until December 31, 2014. Thereafter, until its expiry on January 15, 2015, the Credit Facility will be reduced to $750,000 if we have not yet completed an equity offering as defined in the Loan and Security Agreement. Amounts borrowed under the Credit Facility will bear interest equal to the prime rate plus 0.5%. Any borrowings under the Credit Facility will be collateralized by our cash, accounts receivable, inventory, and equipment. The Credit Facility includes traditional lending and reporting covenants. These include certain financial covenants applicable to liquidity that are to be maintained by the Company. As of March 31, 2014, we were in compliance with these covenants and had not borrowed any funds under the credit facility. Of the Credit Facility limit, $225,000 is restricted to support a letter of credit issued in favor of our landlord in connection with the lease of our facilities in Waltham, Massachusetts. Consequently, the amount available for borrowing under the Credit Facility as of March 31, 2014 was $2,275,000.

During the first quarter of 2014, our cash and cash equivalents decreased by $1.6 million due mainly to our loss from operations.

In managing our working capital, we monitor are days sales outstanding, or DSO, and inventory turnover rate, which are presented in the table below.

	Quarters Ended March 31,		Year Ended December 31,
	2014	2013	2013
Days sales outstanding (days)	31	35	32
Inventory turnover rate (times per year)	4.0	2.8	3.9

Our payment terms extended to customers generally require payment within 30 days from invoice date. Both our DSO and our inventory turnover rate have improved since December 31, 2013.

The following table sets forth information relating to the sources and uses of our cash:

	Quarters Ended March 31,	
	2014	**2013**
	(in thousands)	
Net cash used in operating activities	$(1,608.1)	$(1,801.9)
Net cash used in investing activities	(4.1)	(6.1)
Net cash (used in) provided by financing activities	—	(5.3)

Our operating activities used $1.6 million in the quarter ended March 31, 2014. The primary driver for the use of cash in our operating activities during the first quarter of 2014 was our net loss of $1.2 million, which included non-cash charges of $111,000, for stock-based compensation and for depreciation and amortization, and non-cash credits of $514,600 for revaluing outstanding warrants at fair value.

We believe that our cash and cash equivalents at March 31, 2014 and the cash to be generated from expected product sales will be sufficient to meet our projected operating requirements into the second quarter of 2015. We continue to face significant challenges and uncertainties and, as a result, our available capital resources may be consumed more rapidly than currently expected due to (a) unanticipated decreases in sales of our products and the uncertainty of future revenues from new products; (b) changes we may make to the business that affect ongoing operating expenses; (c)

changes we may make in our business strategy; (d) regulatory developments affecting our existing products and delays in the FDA approval process for products under development; (e) changes we may make in our research and development spending plans; and (f) other items affecting our forecasted level of expenditures and use of cash resources. Accordingly, we will need to raise additional funds to support our operating and capital needs for the second quarter of 2015 and beyond. We may attempt to obtain additional funding through public or private financing, collaborative arrangements with strategic partners, or through additional credit lines or other debt financing sources to increase the funds available to fund operations. However, we may not be able to secure such financing in a timely manner or on favorable terms, if at all. We have filed a shelf registration statement on Form S-3 with the SEC to register shares of our common stock and other securities for sale, giving us the opportunity to raise funding when considered appropriate at prices and on terms to be determined at the time of any such offerings. Pursuant to the instructions to Form S-3, we currently have the ability to sell shares under the shelf registration statement, during any 12-month period, in an amount less than or equal to one-third of the aggregate market value of our common stock held by non-affiliates. As a result of the 2013 Offering, we will be limited in the use of the shelf registration statement until June 2014. We have also filed a registration statement for the sale of securities pursuant an equity offering on Form S-1, which has not yet been declared effective. If we raise additional funds by issuing equity or debt securities, either through the shelf registration statement or by other means, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. If we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to our potential products or proprietary technologies, or grant licenses on terms that are not favorable to us. Without additional funds, we may be forced to delay, scale back or eliminate some of our sales and marketing efforts, research and development activities, or other operations and potentially delay product development in an effort to provide sufficient funds to continue our operations. If any of these events occurs, our ability to achieve our development and commercialization goals would be adversely affected.

Off-Balance Sheet Arrangements, Contractual Obligation and Contingent Liabilities and Commitments

As of March 31, 2014, we did not have any off-balance sheet financing arrangements.

See Note 6, Commitments and Contingencies, of our Notes to Unaudited Financial Statements for information regarding commitments and contingencies.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements since the recent accounting pronouncements described in our 2013 Form 10-K that are of significance to us.

Cautionary Note Regarding Forward-Looking Statements

The statements contained in this Quarterly Report on Form 10-Q, including under the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Quarterly Report, include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including, without limitation, statements regarding our or our management's expectations, hopes, beliefs, intentions or strategies regarding the future, such as our estimates regarding anticipated operating losses, future revenues and projected expenses; our liquidity and our expectations regarding our needs for and ability to raise additional capital; our ability to manage our expenses effectively and raise the funds needed to continue our business; our belief that there are unmet needs in the treatment of diabetic neuropathies and adjacent forms of chronic pain and our expectations surrounding our NC-stat DPNCheck and SENSUS devices; our plans to develop and commercialize our products; the success and timing of our studies and/or clinical trials; our ability to obtain and maintain regulatory approval of our existing products and any future products we may develop; regulatory and legislative developments in the United States and foreign countries; the performance of our third-party manufacturers; our ability to obtain and maintain intellectual property protection for our products; the successful development of our sales and marketing capabilities; the size and growth of the potential markets for our products and our ability to serve those markets; the rate and degree of market acceptance of any future products; our reliance on key scientific management or personnel; the payment and reimbursement methods used by private or governmental third-party payers; and other factors discussed elsewhere in this Quarterly Report on Form 10-Q or any document incorporated by reference herein or therein. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "plan" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this quarterly report are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we

have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described in the section titled “Risk Factors” below and in our Annual Report on Form 10-K. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not use derivative financial instruments in our investment portfolio and have no foreign exchange contracts. Our financial instruments consist of cash and cash equivalents. We consider investments that, when purchased, have a remaining maturity of 90 days or less to be cash equivalents. The primary objectives of our investment strategy are to preserve principal, maintain proper liquidity to meet operating needs, and maximize yields. To minimize our exposure to an adverse shift in interest rates, we invest mainly in cash equivalents and short-term investments with a maturity of twelve months or less and maintain an average maturity of twelve months or less. We do not believe that a notional or hypothetical 10% change in interest rate percentages would have a material impact on the fair value of our investment portfolio or our interest income.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*. Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2014, have concluded that, based on such evaluation, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in Internal Controls*. There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During January 2014 our Corporate Controller left the Company and was replaced by our Assistant Controller. This change in responsibilities had no material effect on our internal controls.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

While we are not currently a party to any material legal proceedings, we could become subject to legal proceedings in the ordinary course of business. We do not expect any such potential items to have a significant impact on our financial position.

Item 1A. Risk Factors

There have been no material changes in the risk factors described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this quarterly report, which Exhibit Index is incorporated herein by this reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEUROMETRIX, INC.

Date: April 24, 2014 /s/ SHAI N. GOZANI, M.D., PH. D.
Shai N. Gozani, M.D., Ph. D.
Chairman, President and Chief Executive Officer

Date: April 24, 2014 /s/ THOMAS T. HIGGINS
Thomas T. Higgins
Senior Vice President, Chief Financial Officer and Treasurer

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EXHIBIT INDEX

Exhibit No.	Description
10.1	Fifth Modification to Loan and Security Agreement with Comerica Bank expiring January 15, 2015.
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and pursuant to Section 302 of the

	Sarbanes-Oxley Act of 2002. Filed herewith.
32	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350. Furnished herewith.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Balance Sheets at March 31, 2013 and December 31, 2012, (ii) Statements of Operations for the quarter ended March 31, 2013 and 2012, (iii) Statements of Cash Flows for the quarter ended March

	31, 2013 and 2012, and (iv) Notes to Financial Statements.**
**	Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.