**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2018**
**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**

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**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.) |
| **1000 Winter Street, 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 ☒ No ☐

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 ☒ No ☐

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

| Large accelerated filer ☐ | Accelerated filer ☐ | Non-accelerated filer ☐ (Do not check if a smaller reporting company) | Smaller reporting company ☒ |
|---|---|---|---|
| | | | Emerging growth company ☐ |

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

Yes ☐ No ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 7,365,038 shares of common stock, par value $0.0001 per share, were outstanding as of October 12, 2018.

In addition, there were 454,781 warrants to purchase shares of the issuer's common stock listed under NUROW on the Nasdaq stock exchange outstanding as of October 12, 2018.

**NeuroMetrix, Inc.**
**Form 10-Q**
**Quarterly Period Ended September 30, 2018**

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**NeuroMetrix, Inc.**
**Balance Sheets**

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 7,530,598 | $ 4,043,681 |
| Accounts receivable, net | 1,615,842 | 1,049,329 |
| Inventories | 2,597,340 | 2,142,561 |
| Prepaid expenses and other current assets | 827,823 | 1,867,803 |
| Total current assets | 12,571,603 | 9,103,374 |
| Fixed assets, net | 380,468 | 440,842 |
| Other long-term assets | 86,255 | 55,008 |
| Total assets | $ 13,038,326 | $ 9,599,224 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,151,235 | $ 733,305 |
| Accrued expenses and compensation | 1,921,406 | 2,362,124 |
| Accrued product returns | 1,105,960 | 666,375 |
| Deferred revenue | — | 820,031 |
| Total current liabilities | 4,178,601 | 4,581,835 |
| Total liabilities | 4,178,601 | 4,581,835 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity: | | |
| Preferred stock | — | — |
| Convertible preferred stock | 18 | 30 |
| Common stock, $0.0001 par value; 100,000,000 shares authorized at September 30, 2018 and December 31, 2017; 7,365,038 and 2,706,066 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively | 737 | 271 |
| Additional paid-in capital | 197,072,928 | 196,355,142 |
| Accumulated deficit | (188,213,958) | (191,338,054) |
| Total stockholders' equity | 8,859,725 | 5,017,389 |
| Total liabilities and stockholders' equity | $ 13,038,326 | $ 9,599,224 |

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

**NeuroMetrix, Inc.**
**Statements of Operations**
**(Unaudited)**

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Revenues | $ 3,666,780 | $ 3,546,680 | $ 12,361,338 | $ 12,162,861 |
| Cost of revenues | 1,821,111 | 2,040,997 | 6,726,675 | 7,378,001 |
| Gross profit | 1,845,669 | 1,505,683 | 5,634,663 | 4,784,860 |
| Operating expenses: | | | | |
| Research and development | 1,178,468 | 840,577 | 4,074,895 | 2,621,445 |
| Sales and marketing | 2,334,340 | 2,919,504 | 7,039,933 | 8,436,497 |
| General and administrative | 1,015,489 | 1,258,466 | 3,990,266 | 3,925,595 |
| Total operating expenses | 4,528,297 | 5,018,547 | 15,105,094 | 14,983,537 |
| Loss from operations | (2,682,628) | (3,512,864) | (9,470,431) | (10,198,677) |
| Other income: | | | | |
| Collaboration income | 3,750,000 | — | 12,255,704 | — |
| Other income | 18,686 | 3,881 | 40,965 | 219,498 |
| Total other income | 3,768,686 | 3,881 | 12,296,669 | 219,498 |
| Net income (loss) | 1,086,058 | (3,508,983) | 2,826,238 | (9,979,179) |
| Net income (loss) applicable to common stockholders: | | | | |
| Deemed dividends attributable to preferred shareholders | — | (2,833,098) | — | (6,874,780) |
| Net income (loss) applicable to common stockholders | $ 1,086,058 | $ (6,342,081) | $ 2,826,238 | $ (16,853,959) |
| Net income (loss) per common share applicable to common stockholders, | | | | |
| Basic | $ 0.15 | $ (3.11) | $ 0.40 | $ (11.62) |
| Diluted | $ 0.08 | $ (3.11) | $ 0.20 | $ (11.62) |

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

**NeuroMetrix, Inc.**
**Statements of Cash Flows**
**(Unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2018** | **2017** |
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 2,826,238 | $ (9,979,179) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 166,262 | 198,892 |
| Stock-based compensation | 414,722 | 170,093 |
| Change in fair value of warrant liability | — | (208,480) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 786,986 | 315,285 |
| Inventories | (454,779) | (533,836) |
| Prepaid expenses and other current and long-term assets | 425,242 | (365,547) |
| Accounts payable | 417,930 | (22,074) |
| Accrued expenses and compensation | (146,454) | 678,326 |
| Accrued product returns | (852,596) | (30,529) |
| Deferred revenue | — | 297,558 |
| Net cash provided by (used in) operating activities | 3,583,551 | (9,479,491) |
| **Cash flows from investing activities:** | | |
| Purchases of fixed assets | (105,888) | (70,226) |
| Net cash used in investing activities | (105,888) | (70,226) |
| **Cash flows from financing activities:** | | |
| Net proceeds from issuance of stock and warrants | 9,254 | 9,569,800 |
| Net cash provided by financing activities | 9,254 | 9,569,800 |
| Net increase in cash and cash equivalents | 3,486,917 | 20,083 |
| Cash and cash equivalents, beginning of period | 4,043,681 | 3,949,135 |
| Cash and cash equivalents, end of period | $ 7,530,598 | $ 3,969,218 |
| **Supplemental disclosure of cash flow information:** | | |
| Change in fair value of warrant liability from repricing | $ — | $ 244,611 |
| Exchange of warrant liability for Series F Preferred Stock | $ — | $ 40,772 |
| Common stock issued to settle employee incentive compensation obligation | $ 294,264 | $ — |

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

**NeuroMetrix, Inc.**
**Notes to Unaudited Financial Statements**
**September 30, 2018**

## 1. Business and Basis of Presentation

### Our Business-An Overview

NeuroMetrix, Inc., or the Company, is a commercial stage, innovation driven healthcare company combining bioelectrical and digital medicine to address chronic health conditions including chronic pain, sleep disorders, and diabetes. The Company's lead product is Quell, an over-the-counter wearable therapeutic device for chronic pain. Quell is integrated into a digital health platform that helps patients optimize their therapy and decrease the impact of chronic pain on their quality of life. The Company also markets DPNCheck®, a rapid point-of-care test for diabetic neuropathy, which is the most common long-term complication of Type 2 diabetes. The Company maintains an active research effort. The Company is located in Waltham, Massachusetts and was founded as a spinoff from the Harvard-MIT Division of Health Sciences and Technology in 1996.

In January 2018, the Company entered into a collaboration (the "Collaboration") with GlaxoSmithKline ("GSK"). The Collaboration set up a framework for the joint development of the next generation of Quell, recently launched in the United States in September 2018, and the assignment of areas of marketing responsibility. The initial term of the Collaboration runs through 2020. Through September 30, 2018, GSK has paid the Company $12.7 million, committed to future performance milestone payments totaling up to $13.8 million, and agreed to co-fund Quell development costs starting in 2019.

The accompanying financial statements have been prepared on a basis which assumes that the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. In recent years, the Company has suffered recurring losses from operations and negative cash flows from operating activities. At September 30, 2018, the Company had an accumulated deficit of $188.2 million. The Company held cash and cash equivalents of $7.5 million as of September 30, 2018. The Company believes that these resources, together with the cash to be generated from expected product sales and the potential achievement of additional development milestones under the Collaboration with GSK, will be sufficient to meet its projected operating requirements into the second quarter of 2019. 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) decreases in sales of the Company's products and the uncertainty of future revenues; (b) delays in achieving Quell development milestones and related payments from GSK; (c) changes the Company may make to the business that affect ongoing operating expenses; (d) changes the Company may make in its business strategy; (e) regulatory developments or inquiries affecting the Company's existing products and products under development; (f) changes the Company may make in its research and development spending plans; and (g) other items affecting the Company's forecasted level of expenditures and use of cash resources. Accordingly, the Company may need to raise additional funds to support its operating and capital needs in the second quarter of 2019 and beyond. These factors raise substantial doubt about the Company's ability to continue as a going concern for the one-year period from the date of issuance of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company intends to obtain additional funding through public or private financing, or through additional credit lines or other debt financing sources. 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. 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. If any of these events occurs, the Company's ability to achieve its development and commercialization goals may be adversely affected.

**Unaudited Interim Financial Statements**

The accompanying unaudited balance sheet as of September 30, 2018, unaudited statements of operations for the quarters and nine months ended September 30, 2018 and 2017 and the unaudited statements of cash flows for the nine months ended September 30, 2018 and 2017 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 8 of Regulation S-X. The accompanying balance sheet as of December 31, 2017 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. In the opinion of management, the financial statements include all normal and recurring adjustments considered necessary for a fair presentation of the Company's financial position and operating results. Operating results for the quarter and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any other period. These financial statements and notes should be read in conjunction with the financial statements for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, or the SEC, on February 8, 2018 (File No. 001-33351), or the Company's 2017 Form 10-K.

**Revenues**

Revenues include product sales, net of estimated returns. Revenue is measured as the amount of consideration the Company expects to receive in exchange for product transferred. Revenue is recognized when contractual performance obligations have been satisfied and control of the product has been transferred to the customer. In most cases, the Company has a single product delivery performance obligation. Product returns are estimated based on historical data and evaluation of current information.

Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), is a comprehensive revenue recognition standard that superseded nearly all existing revenue recognition guidance. The Company adopted this standard effective January 1, 2018, applying the modified retrospective method. Upon adoption, the Company discontinued revenue deferral under the sell-through model and commenced recording revenue upon delivery to distributors, net of estimated returns. Generally, the new standard results in earlier recognition of revenues.

Upon adoption of ASU 2014-09, the Company recorded a decrease in accumulated deficit of $297,858 as detailed in the following table:

| | As reported | | After adoption |
|---|---|---|---|
| | December 31, 2017 | ASU 2014-09 Impact | January 1, 2018 |
| Accounts receivable, net | $ 1,049,329 | $ 1,353,499 | $ 2,402,828 |
| Prepaid expenses and other current assets | $ 1,867,803 | $ (583,491) | $ 1,284,312 |
| Total current assets | $ 9,103,374 | $ 770,008 | $ 9,873,382 |
| Accrued product returns | $ 666,375 | $ 1,292,181 | $ 1,958,556 |
| Deferred revenue | $ 820,031 | $ (820,031) | $ — |
| Total current liabilities | $ 4,581,835 | $ 472,150 | $ 5,053,985 |
| Accumulated deficit | $ (191,338,054) | $ 297,858 | $ (191,040,196) |
| Total stockholders' equity | $ 5,017,389 | $ 297,858 | $ 5,315,247 |

The following table summarizes the effects of adopting ASU 2014-09 on the Company's statement of operations for the quarter ended September 30, 2018:

| | As reported | Adjustments | Amounts under prior GAAP |
|---|---|---|---|
| Revenues | $ 3,666,780 | $ 96,333 | $ 3,763,113 |
| Cost of revenues | $ 1,821,111 | $ 46,237 | $ 1,867,348 |
| Gross profit | $ 1,845,669 | $ 50,096 | $ 1,895,765 |
| Net income applicable to common stockholders | $ 1,086,058 | $ 50,096 | $ 1,136,154 |
| Net income per common share applicable to common stockholders, | | | |
| Basic | $ 0.15 | $ — | $ 0.15 |
| Diluted | $ 0.08 | $ — | $ 0.08 |

The following table summarizes the effects of adopting ASU 2014-09 on the Company's statement of operations for the nine months ended September 30, 2018:

| | As reported | Adjustments | Amounts under prior GAAP |
|---|---|---|---|
| Revenues | $ 12,361,338 | $ 376,198 | $ 12,737,536 |
| Cost of revenues | $ 6,726,675 | $ 311,723 | $ 7,038,398 |
| Gross profit | $ 5,634,663 | $ 64,475 | $ 5,699,138 |
| Net income applicable to common stockholders | $ 2,826,238 | $ 64,475 | $ 2,890,713 |
| Net income per common share applicable to common stockholders, | | | |
| Basic | $ 0.40 | $ 0.01 | $ 0.41 |
| Diluted | $ 0.20 | $ 0.01 | $ 0.21 |

The following table summarizes the effects of adopting ASU 2014-09 on the Company's balance sheet as of September 30, 2018:

| | As reported | Adjustments | Amounts under prior GAAP |
|---|---|---|---|
| Accounts receivable, net | $ 1,615,842 | $ (211,222) | $ 1,404,620 |
| Prepaid expenses and other current assets | $ 827,823 | $ 271,767 | $ 1,099,590 |
| Total current assets | $ 12,571,603 | $ 60,545 | $ 12,632,148 |
| Accrued product returns | $ 1,105,960 | $ (525,000) | $ 580,960 |
| Deferred revenue | $ — | $ 818,929 | $ 818,929 |
| Total current liabilities | $ 4,178,601 | $ 293,929 | $ 4,472,530 |
| Accumulated deficit | $ (188,213,958) | $ (233,384) | $ (188,447,342) |
| Total stockholders' equity | $ 8,859,725 | $ (233,384) | $ 8,626,341 |

Adoption of the standard had no impact on total net cash from or used in operating, investing, or financing activities within the statements of cash flows.

Accounts receivable are recorded net of the allowance for doubtful accounts which represents the Company's best estimate of credit losses. Allowance for doubtful accounts was $25,000 as of September 30, 2018 and December 31, 2017.

One customer accounted for 16% and two customers accounted for 28% of total revenue in the quarter and nine months ended September 30, 2018, respectively. One customer accounted for 21% and 18% of total revenue for the quarter and nine months ended September 30, 2017, respectively. Customers that individually account for greater than 10% of accounts receivables totaled 28% and 66% as of September 30, 2018 and December 31, 2017, respectively.

**Collaboration**

In January 2018, the Company entered into the Collaboration with GSK. The Company sold to GSK the rights to the Company's Quell technology for markets outside of the United States, including certain patents and related assets, and agreed to complete development milestones for the next-generation Quell technology. The Company retained exclusive ownership of Quell technology in the U.S. market. GSK agreed to payments totaling up to $26.5 million, of which $5.0 million was paid at closing, $7.7 million was paid upon attainment of product development milestones, and the balance will be due upon achievement of defined development and commercialization milestones. In addition, the parties agreed to jointly fund Quell technology development during an initial period starting in 2019. The Company recognized Collaboration income net of costs, within Other income in the Statement of Operations of $3,750,000 and $12,255,704, for the quarter and nine months ended September 30, 2018, respectively.

**Stock-based Compensation**

Total compensation cost related to non-vested awards not yet recognized at September 30, 2018 was $263,734. The total compensation costs are expected to be recognized over a weighted-average period of 2.1 years.

**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.

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation.

**Recent Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires that lessees recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. The provisions of this guidance are effective for annual periods beginning after December 31, 2018, and for interim periods therein. The Company is in the process of evaluating the new standard and assessing the impact ASU 2016-02 will have on the Company's financial statements and which adoption method will be used.

## 2. Comprehensive Income (Loss)

For the quarters and nine months ended September 30, 2018 and 2017, the Company had no components of other comprehensive income or loss other than net income (loss) itself.

**3. Net Income (Loss) Per Common Share**

Basic and dilutive net income (loss) per common share were as follows:

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) applicable to common stockholders | $ 1,086,058 | $ (6,342,081) | $ 2,826,238 | $(16,853,959) |
| Weighted average number of common shares outstanding, basic | 7,365,038 | 2,036,117 | 7,016,789 | 1,450,237 |
| Dilutive convertible preferred stock | 6,584,674 | — | 6,847,164 | — |
| Weighted average number of common shares outstanding, dilutive | 13,949,712 | 2,036,117 | 13,863,953 | 1,450,237 |
| Net income (loss) per common share applicable to common stockholders, basic | $ 0.15 | $ (3.11) | $ 0.40 | $ (11.62) |
| Net income (loss) per common share applicable to common stockholders, diluted | $ 0.08 | $ (3.11) | $ 0.20 | $ (11.62) |

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

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Options | 474,148 | 100,237 | 426,166 | 98,642 |
| Warrants | 459,375 | 1,206,504 | 459,375 | 3,469,612 |
| Convertible preferred stock | — | 6,422,034 | — | 4,328,089 |
| Total | 933,523 | 7,728,775 | 885,541 | 7,896,343 |

**4. Inventories**

Inventories consist of the following:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Purchased components | $ 1,702,525 | $ 505,293 |
| Finished goods | 894,815 | 1,637,268 |
| | $ 2,597,340 | $ 2,142,561 |

## 5. Accrued Expenses and Compensation

Accrued expenses and compensation consist of the following:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Accrued compensation | $ 578,167 | $ 786,184 |
| Technology fees | 450,000 | 450,000 |
| Professional services | 285,000 | 603,000 |
| Warranty reserve | 159,727 | 127,361 |
| Advertising and promotion | 139,900 | 160,800 |
| Other | 308,612 | 234,779 |
| | $ 1,921,406 | $ 2,362,124 |

## 6. Commitments and Contingencies

*Operating Lease*

In June 2018, the Company extended the lease on its Woburn, Massachusetts manufacturing facilities (the "Woburn Lease") through September 2025. As of September 2018, the Woburn Lease has a monthly base rent of $13,918 and a 5-year extension option. In September 2014, the Company entered into a 7-year operating lease agreement with one 5-year extension option for its principal corporate office and product development location in Waltham, Massachusetts (the "Waltham Lease"). The term of the Waltham Lease commenced on February 20, 2015 and includes fixed payment obligations that escalate over the initial lease term. Average monthly base rent under the 7-year lease is $37,788.

## 7. Fair Value Measurements

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.

| | | Fair Value Measurements at September 30, 2018 Using | | |
|---|---|---|---|---|
| | September 30, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Cash equivalents | $ 4,893,447 | $ 4,893,447 | $ — | $ — |
| Total | $ 4,893,447 | $ 4,893,447 | $ — | $ — |

| | | Fair Value Measurements at December 31, 2017 Using | | |
|---|---|---|---|---|
| | December 31, 2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Cash equivalents | $ 1,744,965 | $ 1,744,965 | $ — | $ — |
| Total | $ 1,744,965 | $ 1,744,965 | $ — | $ — |

**8. Credit Facility**

The Company is party to a Loan and Security Agreement, as amended (the "Credit Facility"), with a bank. As of September 30, 2018, the Credit Facility permitted the Company to borrow up to $2.5 million on a revolving basis. The Credit Facility was amended most recently in January 2018 and expires in January 2019. 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 September 30, 2018, the Company was in compliance with these covenants and had not borrowed any funds under the Credit Facility. However, $226,731 of the amount under the Credit Facility is restricted to support letters of credit issued in favor of the Company's landlords. Consequently, the amount available for borrowing under the Credit Facility as of September 30, 2018 was approximately $2.3 million.

**9. Stockholders' Equity**

Preferred stock and convertible preferred stock consist of the following:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Preferred stock, $0.001 par value; 5,000,000 shares authorized at September 30, 2018 and December 31, 2017; no shares issued and outstanding at September 30, 2018 and December 31, 2017 | $ — | $ — |
| Series B convertible preferred stock, $0.001 par value; 147,000 shares designated at September 30, 2018 and December 31, 2017; 500 shares issued and outstanding at September 30, 2018 and December 31, 2017 | $ 1 | $ 1 |
| Series D convertible preferred stock, $0.001 par value; 21,300 shares designated at September 30, 2018 and December 31, 2017; 14,052.93 shares issued and outstanding at September 30, 2018 and December 31, 2017 | $ 14 | $ 14 |
| Series E convertible preferred stock, $0.001 par value; 7,000 shares designated at September 30, 2018 and December 31, 2017; 3,260.70 and 7,000 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively | $ 3 | $ 7 |
| Series F convertible preferred stock, $0.001 par value; 10,621 shares designated at September 30, 2018 and December 31, 2017; zero and 7,927.05 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively | $ — | $ 8 |

*2018 equity activity*

In 2018, the Company issued shares of fully vested common stock in partial settlement of management incentive compensation. The 2018 issuance totaled 214,791 shares with a value of $294,264 reflecting the $1.37 closing price of the Company's common stock as reported on the Nasdaq Capital Market on April 12, 2018.

During the nine months ended September 30, 2018, 3,739.3 shares of the Series E Preferred Stock were converted into a total of 1,421,787 shares of Common Stock. As of September 30, 2018, 3,260.70 shares of Series E Preferred Stock remained outstanding.

During the nine months ended September 30, 2018, 7,927.05 shares of the Series F Preferred Stock were converted into a total of 3,014,087 shares of Common Stock. As of September 30, 2018, zero shares of Series F Preferred Stock remained outstanding.

**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 a commercial stage, innovation driven healthcare company combining bioelectrical and digital medicine to address chronic health conditions including chronic pain, sleep disorders, and diabetes. Our business is fully integrated with in-house capabilities spanning product development, manufacturing, regulatory affairs and compliance, sales and marketing, and customer support. We derive revenues from the sale of medical devices and after-market consumable products and accessories. Our products are sold in the United States and selected overseas markets, and are cleared by the U.S. Food and Drug Administration, or FDA, and regulators in foreign jurisdictions where appropriate. We have two principal product lines:

- Wearable neuro-stimulation therapeutic devices
- Point-of-care neuropathy diagnostic tests

Our core expertise in biomedical engineering has been refined over nearly two decades of designing, building and marketing medical devices that stimulate nerves and analyze nerve response for diagnostic and therapeutic purposes. We created the market for point-of-care nerve testing and were first to market with sophisticated, wearable technology for management of chronic pain. We have an experienced management team and Board of Directors.

Chronic pain is a significant public health problem. It is defined by the National Institutes of Health as any pain lasting more than 12 weeks, in contrast to acute pain, which is a normal bodily response to injury or trauma. Chronic pain conditions include painful diabetic neuropathy, or PDN, arthritis, fibromyalgia, sciatica, musculoskeletal pain, cancer pain and many others. Chronic pain may be triggered by an injury or there may be an ongoing cause such as disease or illness. There may also be no clear cause. Pain signals continue to be transmitted in the nervous system over extended periods of time often leading to other health problems. These can include fatigue, sleep disturbance, decreased appetite, and mood changes which cause difficulty in carrying out important activities and contributing to disability and despair. In general, chronic pain cannot be cured. Treatment of chronic pain is focused on reducing pain and improving function. The goal is effective pain management.

Chronic pain affects over 100 million adults in the United States and more than 1.5 billion people worldwide. The global market for pain management drugs and devices alone was valued at $35 billion in 2012. The estimated incremental impact of chronic pain on health care costs in the United States is over $250 billion per year and lost productivity is estimated to exceed $300 billion per year. Estimated out-of-pocket spending in the United States on chronic pain is $20 billion per year.

The most common approach to chronic pain is pain medication. This includes over-the-counter drugs (such as Advil and Motrin), and prescription drugs including anti-convulsants (such as Lyrica and Neurontin) and anti-depressants (such as Cymbalta and Elavil). Topical creams may also be used (such as Zostrix and Bengay). With severe pain, narcotic pain medications may be prescribed (such as codeine, fentanyl, morphine, and oxycodone). The approach to treatment is individualized, drug combinations may be employed, and the results are often hit or miss. Side effects and the potential for addiction are real and the risks are substantial.

Reflecting the difficulty in treating chronic pain, we believe that inadequate relief leads 25% to 50% of pain sufferers to turn to the over-the-counter market for supplements or alternatives to prescription pain medications. These include non-prescription medications, topical creams, lotions, electrical stimulators, dietary products, braces, sleeves, pads and other items. In total they account for over $4 billion in annual spending in the United States on pain relief products.

Nerve stimulation is an established treatment for chronic pain supported by numerous clinical studies demonstrating efficacy. In simplified outline, the mechanism of action involves intensive nerve stimulation to activate the body's central pain inhibition system resulting in pain relief. The nerve stimulation activates brainstem pain centers leading to the release of endogenous opioids to reduce pain signal transmission through the central nervous system. This therapeutic approach is

available through deep brain stimulation and through implantable spinal cord stimulation, both of which require surgery and have attendant risks. We believe that non-invasive approaches to neuro-stimulation (transcutaneous electrical nerve stimulation, or TENS) have achieved limited efficacy in practice due to device limitations, ineffective dosing and low patient compliance.

Quell is our OTC wearable device for pain relief. Quell revenues for fiscal years 2017 and 2016 were approximately $12.4 million and $7.4 million, respectively. Quell revenues for the nine months ended September 30, 2018 were approximately $7.7 million. We have a development and marketing collaboration with GlaxoSmithKline (NYSE: GSK) for the next generation Quell technology which was recently launched as Quell 2.0 in the United States and is planned to launch outside the United States in 2019 and beyond. Quell utilizes our patented neuro-stimulation technology to provide relief from chronic pain. This advanced wearable device is lightweight and can be worn during the day while active, and at night while sleeping. It has been cleared by the U.S. Food and Drug Administration (the "FDA") for treatment of chronic intractable pain without a doctor's prescription. Users of the device have the option of using their smartphones to control pain therapy and to track sleep, activity, gait and therapy parameters. Quell is distributed in the United States via e-commerce, direct response television, various retail merchandisers and others. Distribution is supported by television and social media promotion to expand product awareness.

DPNCheck is our diagnostic test for peripheral neuropathies. DPNCheck revenues for fiscal years 2017 and 2016 were approximately $3.1 million, and $2.5 million, respectively. DPNCheck revenues for the nine months ended September 30, 2018 were approximately $3.6 million. Our U.S. sales efforts focus on Medicare Advantage providers who assume financial responsibility and the associated risks for the health care costs of their patients. We believe that DPNCheck presents an attractive 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 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. DPNCheck is marketed in Japan by our distribution partner Fukuda Denshi; in China by OMRON Medical (Beijing) Ltd.; and in Mexico by Scienta Farma.

Our products consist of a medical device used in conjunction with a consumable electrode or biosensor. Other accessories and consumables are also available to customers. Our commercial objective is to build an installed base of active customer accounts that regularly orders aftermarket products. We successfully implemented this model when we started our business with the NC-stat system and applied it to subsequent product generations including ADVANCE. Our more recently developed products, Quell and DPNCheck, conform to this model.

**Results of Operations**

**Comparison of Quarters Ended September 30, 2018 and 2017**

*Revenues*

| | Quarters Ended September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| | (in thousands) | | | |
| Revenues | $ 3,666.8 | $ 3,546.7 | $ 120.1 | 3.4% |

Revenues include sales from Quell, DPNCheck and our legacy neurodiagnostic products. During the third quarter of 2018 total revenues increased by $0.1 million, or 3.4%, from the third quarter of 2017. Quell revenues of $2.2 million were the largest contributor to total revenue. They were $0.4 million, or 13.9%, below the comparable 2017 period. This was due to our decision to reduce advertising spending until the launch of Quell 2.0 in September 2018. DPNCheck revenues of $1.1 million increased by $0.5 million, or 76.1% from 2017. Our legacy products contributed $0.3 million of revenue in the third quarters of 2018 and 2017.

In 2018 we adopted revenue recognition standard ASU 2014-09 and discontinued revenue deferral under the previously mandated sell-through revenue model. Generally, the new standard results in earlier recognition of revenues. Had we not changed our revenue recognition policy, revenue in the third quarter of 2018 would have been $0.1 million lower than reported.

*Cost of Revenues and Gross Profit*

| | Quarters Ended September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| | (in thousands) | | | |
| Cost of revenues | $ 1,821.1 | $ 2,041.0 | $ (219.9) | (10.8)% |
| Gross profit | $ 1,845.7 | $ 1,505.7 | $ 340.0 | 22.6 % |

Our gross profit margin was 50.3% in the third quarter of 2018 versus 42.5% in the prior year. The margin improvement of 780 basis points or 18% was due to increased weighting of our high margin DPNCheck business within total revenue plus the improved profitability structure of our next generation product Quell 2.0, launched in September 2018.

*Operating Expenses*

| | Quarters Ended September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| | (in thousands) | | | |
| Operating expenses: | | | | |
| Research and development | $ 1,178.5 | $ 840.6 | $ 337.9 | 40.2 % |
| Sales and marketing | 2,334.3 | 2,919.5 | (585.2) | (20.0)% |
| General and administrative | 1,015.5 | 1,258.5 | (243.0) | (19.3)% |
| Total operating expenses | $ 4,528.3 | $ 5,018.6 | $ (490.3) | (9.8)% |

*Research and Development*

Research and development expense in the third quarter of 2018 increased by 40.2% from the prior year due to increases in personnel costs of $0.1 million and engineering consulting services of $0.3 million for product development and to support the GSK Collaboration.

*Sales and Marketing*

Sales and marketing expense in the third quarter of 2018 declined by 20.0% from the prior year as we reduced Quell advertising spending by $0.6 million prior to the launch of our next generation product, Quell 2.0, which occurred late in the quarter.

*General and Administrative*

General and administrative expense declined by 19.3% from the prior year due to reduced spending on professional services

*Collaboration income*

| | Quarters Ended September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| | (in thousands) | | | |
| Collaboration income | $ 3,750.0 | $ — | $ 3,750.0 | 100.0% |

In January 2018, we entered into a collaboration (the "Collaboration") with GlaxoSmithKline ("GSK") in which we sold to GSK rights to our Quell technology for markets outside of the United States, including certain patents and related assets, and agreed to complete development milestones for the next-generation Quell technology. We retained exclusive ownership of Quell technology in the U.S. market. GSK agreed to payments totaling up to $26.5 million, of which $5.0 million was paid at closing and the balance due upon achievement of defined development and commercialization milestones. In addition, the parties agreed to jointly fund future Quell technology development during an initial period starting in 2019. Upon attainment of a development milestone, the Company recorded Collaboration income of $3.8 million, net of costs, for the quarter ended September 30, 2018.

*Other income*

| | Quarters Ended September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| | (in thousands) | | | |
| Other income | $ 18.7 | $ 3.9 | $ 14.8 | 379.5% |

Other income primarily includes interest income.

*Net income (loss) per common share applicable to common stockholders, basic and diluted*

Net income per common share applicable to common stockholders was $0.15 basic and $0.08 diluted for the quarter ended September 30, 2018. Net loss per common share applicable to common stockholders was $(3.11), basic and diluted for the quarter ended September 30, 2017. Weighted average shares outstanding used in computing per share amounts are included in Note 3 to the Financial Statements. In the quarter ended September 30, 2017, per share amounts reflected a deemed dividend attributable to preferred stockholders of $2.8 million, or $(1.39) per share, related to an equity offering, plus a net loss of $3.5 million, or $(1.72) per share.

**Comparison of Nine Months Ended September 30, 2018 and 2017**

*Revenues*

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| | (in thousands) | | | |
| Revenues | $ 12,361.3 | $ 12,162.9 | $ 198.4 | 1.6% |

Revenues include sales from Quell, DPNCheck and our legacy neurodiagnostic products. During the first nine months of 2018 total revenues increased by $0.2 million, or 1.6%, from the prior year. Quell revenues of $7.7 million were the largest contributor to total revenue. They were $0.9 million, or 10.8%, below the prior year due to deferred advertising spending in the second and third quarters until the launch of Quell 2.0 in September 2018. DPNCheck revenues of $3.6 million increased $1.3 million, or 57.8%, from 2017. Our legacy products contributed $1.1 million in revenue, down from $1.2 million in 2017.

In 2018 we adopted revenue recognition standard ASU 2014-09 and discontinued revenue deferral under the previously mandated sell-through revenue model. Generally, the new standard results in earlier recognition of revenues. Had we not

changed our revenue recognition policy, revenue in the first nine months of 2018 would have been $0.4 million higher than reported.

*Cost of Revenues and Gross Profit*

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| | (in thousands) | | | |
| Cost of revenues | $ 6,726.7 | $ 7,378.0 | $ (651.3) | (8.8)% |
| Gross profit | $ 5,634.6 | $ 4,784.9 | $ 849.7 | 17.8 % |

Our gross profit margin was 45.6% in the first nine months of 2018 versus 39.3% in the prior year. The margin improvement of 630 basis points or 16% was due to increased weighting of our high margin DPNCheck business within total revenue plus the improved profitability structure of our next generation product Quell 2.0, launched in September 2018.

*Operating Expenses*

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| | (in thousands) | | | |
| Operating expenses: | | | | |
| Research and development | $ 4,074.9 | $ 2,621.4 | $ 1,453.5 | 55.4 % |
| Sales and marketing | 7,039.9 | 8,436.5 | (1,396.6) | (16.6)% |
| General and administrative | 3,990.3 | 3,925.6 | 64.7 | 1.6 % |
| Total operating expenses | $ 15,105.1 | $ 14,983.5 | $ 121.6 | 0.8 % |

*Research and Development*

Research and development expenses for the nine months ended September 30, 2018 increased by 55.4% from 2017 due to higher personnel costs of $0.2 million and engineering consulting services of $1.1 million for product development and to support the GSK Collaboration.

*Sales and Marketing*

Sales and marketing expense for the nine months ended September 30, 2018 decreased by 16.6% from 2017 as we deferred Quell advertising spending prior to launch of our next generation product, Quell 2.0, which occurred in September 2018.

*General and Administrative*

General and administrative expense was relatively unchanged for the nine months ended September 30, 2018 and 2017.

*Collaboration income*

| | Nine Months Ended September 30, 2018 | 2017 | Change | % Change |
|---|---|---|---|---|
| | (in thousands) | | | |
| Collaboration income | $ 12,255.7 | $ — | $ 12,255.7 | 100.0% |

In January 2018, we entered into a Collaboration with GSK in which we sold to GSK rights to our Quell technology for markets outside of the United States, including certain patents and related assets, and agreed to complete development milestones for the next-generation Quell technology. We retained exclusive ownership of Quell technology in the U.S. market. GSK agreed to payments totaling up to $26.5 million of which $5.0 million was paid at closing and the balance due upon achievement of defined development and commercialization milestones. In addition, the parties agreed to jointly fund future Quell technology development during an initial period starting in 2019. In addition to the payment made at closing, two development milestones were achieved in the nine months ended September 30, 2018 which resulted in total payments, net of costs, of $7.5 million.

*Other income*

| | Nine Months Ended September 30, 2018 | 2017 | Change | % Change |
|---|---|---|---|---|
| | (in thousands) | | | |
| Other income | $ 41.0 | $ 219.5 | $ (178.5) | (81.3)% |

Other income includes interest income and warrant liability fair value changes. The change in fair value of warrant liability was zero and $0.2 million for the nine months ended September 30, 2018 and 2017, respectively.

*Net income (loss) per common share applicable to common stockholders, basic and diluted*

Net income per common share applicable to common stockholders was $0.40 basic and $0.20 diluted for the nine months ended September 30, 2018. Net loss per common share applicable to common stockholders was $(11.62), basic and diluted for the nine months ended September 30, 2017. Weighted average shares outstanding used in computing per share amounts are included in Note 3 to the Financial Statements. In the nine months ended September 30, 2017, per share amounts reflected a deemed dividend attributable to preferred stockholders of $6.9 million, or $(4.74) per share, related to 2017 equity offerings, plus a net loss of $10.0 million, or $(6.88) per share.

**Liquidity and Capital Resources**

Our principal source of liquidity is cash of $7.5 million at September 30, 2018. Funding for our operations largely depends on our commercial products for chronic pain and neuropathy, and on milestone achievement under the GSK Collaboration. A low level of market interest in Quell or DPNCheck, a decline in our consumables sales, unanticipated increases in our operating costs, or unanticipated setbacks toward the achievement of the GSK milestones would have an adverse effect on our liquidity and cash.

| | September 30, 2018 | December 31, 2017 | Change | % Change |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| Cash and cash equivalents | $ 7,530.6 | $ 4,043.7 | $ 3,486.9 | 86.2% |

We are party to a Loan and Security Agreement with a bank. As of September 30, 2018 this credit facility permitted us to borrow up to $2.5 million on a revolving basis. Amounts borrowed under the credit facility bear interest equal to the prime rate plus 0.5% and are collateralized by cash, accounts receivable, inventory, and equipment. The credit facility includes traditional lending and reporting covenants. We were in compliance with these covenants at September 30, 2018.

In managing working capital, we focus on two important financial measurements:

| | Quarters Ended September 30, | | Year Ended December 31, |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| Days sales outstanding (days) | 34 | 34 | 37 |
| Inventory turnover rate (times per year) | 2.9 | 4.3 | 6.5 |

Days sales outstanding reflect customer payment terms which vary from payment on order to 60 days from invoice date. Our inventory turnover rate declined during the quarter ended September 30, 2018 as we increased parts and finished good inventory built in anticipation of the Quell 2.0 new product launch.

During the nine months ended September 30, 2018, cash increased by $3.5 million reflecting proceeds of the GSK Collaboration offset by net cash used by operating and investing activities.

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (in thousands) | |
| Net cash used in operating activities (excluding collaboration income) | $ (8,672.1) | $ (9,479.5) |
| Net cash provided by collaboration income | 12,255.7 | — |
| Net cash provided by (used in) operating activities | $ 3,583.6 | $ (9,479.5) |
| Net cash used in investing activities | $ (105.9) | $ (70.2) |
| Net cash provided by financing activities | $ 9.3 | $ 9,569.8 |

During the nine months ended September 30, 2018 our operating activities consumed $8.7 million of cash offset by $12.3 million of collaboration income. Our loss from operations of $9.5 million included non-cash stock compensation expense of approximately $0.4 million. In addition, operating activities included decreases in accrued product returns of $0.9 million, increases in inventory of $0.5 million, and decreases in accounts receivable of $0.8 million.

We held cash and cash equivalents of $7.5 million as of September 30, 2018. We believe that these resources, together with the cash to be generated from expected product sales will be sufficient to meet our operating requirements into the second quarter of 2019. 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) decreases in sales of our products; (b) delays in achieving Quell development milestones and related payments from GSK; (c) changes we may make to the business that affect ongoing operating expenses; (d) changes we may make in our business strategy; (e) regulatory developments or inquiries affecting our existing products and products under development; (f) changes we may make in our research and development spending plans; and (g) other items affecting our forecasted level of expenditures and use of cash resources. Accordingly, we may need to raise additional funds to support our operating and capital needs in the second quarter of 2019 and beyond. These factors raise substantial doubt about our ability to continue as a going concern for the one-year period from the date of issuance of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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. However, we may not be able to secure such financing in a timely manner or on favorable terms, if at all. We maintain a shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission (the "SEC") covering shares of our common stock and other securities for sale, giving us the opportunity to raise funding when needed or otherwise considered appropriate at prices and on terms to be determined at the time of any such offerings. However, pursuant to applicable SEC rules, our ability to sell shares under the shelf registration statement, during any 12-month period, is limited to an amount less than or equal to one-third of the aggregate market value of our common stock held by non-affiliates. If we raise additional funds by issuing equity or debt securities, either through the sale of securities pursuant to a 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. 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. 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 September 30, 2018, 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**

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires that lessees recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. The provisions of this guidance are effective for annual periods beginning after December 31, 2018, and for interim periods therein. The Company is in the process of evaluating the new standard and assessing the impact ASU 2016-02 will have on the Company's financial statements and which adoption method will be used.

**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 expectations regarding achievement of milestones under the GSK Collaboration; our future liquidity and our expectations regarding our needs for and ability to raise additional capital; our ability to manage our expenses effectively; our belief that there are unmet needs for the management of chronic pain and in the diagnosis and treatment of diabetic neuropathy; our expectations surrounding Quell and DPNCheck; our expected timing and our plans to develop and commercialize our products; our ability to meet our proposed timelines for the commercial availability of our products; 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; our estimate of our customer returns of our products; the rate and degree of market acceptance of any future products; our reliance on key scientific management or personnel; and other factors discussed elsewhere in this Quarterly Report on Form 10-Q. 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" 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 September 30, 2018, 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 September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**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, 2017.

**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**

In 2017 the Company received a Civil Investigative Demand ("CID") from the United States Federal Trade Commission ("FTC"). The CID requested information in connection with an FTC review for compliance of the Company's representations about Quell with Sections 5 and 12 of the FTC Act. The Company provided all requested documents as of March 31, 2018. To the knowledge of the Company, no complaint has been filed against the Company; however, no assurance can be given as to the timing or outcome of the investigation.

The Company intends to repurchase, from time to time, warrants to purchase its common stock that are traded on Nasdaq under the symbol NUROW. The Company may expend up to $25,000 in making these purchases on Nasdaq from time to time. Through September 30, 2018, the Company spent $2,391 to repurchase 38,506 warrants to purchase its common stock.

**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.**

| | | |
|---|---|---|
| October 17, 2018 | /s/ | SHAI N. GOZANI, M.D., PH. D. |
| | | Shai N. Gozani, M.D., Ph. D. |
| | | *Chairman, President and Chief Executive Officer* |
| October 17, 2018 | /s/ | THOMAS T. HIGGINS |
| | | Thomas T. Higgins |
| | | *Senior Vice President, Chief Financial Officer and Treasurer* |

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Principal Executive Officer Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and pursuant to Section 302(a) 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 September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Balance Sheets at September 30, 2018 and December 31, 2017, (ii) Statements of Operations for the quarters and nine months ended September 30, 2018 and 2017, (iii) Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, and (iv) Notes to Financial Statements. |

**EXHIBIT 31.1**

**CERTIFICATION**

I, Shai N. Gozani, M.D., Ph.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NeuroMetrix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 17, 2018

/s/ SHAI N. GOZANI, M.D., PH.D.

Shai N. Gozani, M.D., Ph.D.

*Chairman, President and Chief Executive Officer*

**EXHIBIT 31.2**

**CERTIFICATION**

I, Thomas T. Higgins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NeuroMetrix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 17, 2018

/s/ THOMAS T. HIGGINS

Thomas T. Higgins

*Senior Vice President, Chief Financial Officer and Treasurer*

**EXHIBIT 32**

**CERTIFICATION**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of NeuroMetrix, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report for the quarter ended September 30, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SHAI N. GOZANI, M.D., PH.D.

Shai N. Gozani, M.D., Ph.D.
*Chairman, President and Chief Executive Officer*

/s/ THOMAS T. HIGGINS

Thomas T. Higgins
*Senior Vice President, Chief Financial Officer and Treasurer*

October 17, 2018

This certification is being furnished and not filed, and shall not be incorporated into any document for any purpose, under the Securities Exchange Act of 1934 or the Securities Act of 1933.