

NeuroMetrix, Inc.  
Form 10-Q  
August 10, 2010

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**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 June 30, 2010**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**04-3308180**  
(I.R.S. Employer  
Identification No.)

**62 Fourth Avenue, Waltham, Massachusetts 02451**  
(Address of principal executive offices, including 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

## Edgar Filing: NeuroMetrix, Inc. - Form 10-Q

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 23,098,331 shares of common stock, par value \$0.0001 per share, were outstanding as of July 30, 2010.

---

Table of Contents

**NeuroMetrix, Inc.**  
**Form 10-Q**  
**Quarterly Period Ended June 30, 2010**

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Financial Statements:</u>	
	<u>Balance Sheets (unaudited) as of June 30, 2010 and December 31, 2009</u>	<u>2</u>
	<u>Statements of Operations (unaudited) for the quarters and six months ended June 30, 2010 and 2009</u>	<u>3</u>
	<u>Statements of Cash Flows (unaudited) for the six months ended June 30, 2010 and 2009</u>	<u>4</u>
	<u>Notes to Unaudited Financial Statements</u>	<u>5</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>27</u>
<u>Item 4T.</u>	<u>Controls and Procedures</u>	<u>27</u>

**PART II OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>28</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>28</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>30</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>30</u>
<u>Item 4.</u>	<u>[Reserved.]</u>	<u>30</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>30</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>30</u>
<u>Signatures</u>		<u>31</u>

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****NeuroMetrix, Inc.****Balance Sheets****(Unaudited)**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 19,080,117	\$ 22,937,410
Short-term investments	2,500,000	7,495,000
Accounts receivable, net	2,758,344	3,326,331
Inventories	4,891,262	4,559,607
Prepaid expenses and other current assets	427,625	404,716
Current portion of deferred costs	110,355	132,774
<b>Total current assets</b>	<b>29,767,703</b>	<b>38,855,838</b>
Restricted cash	408,000	408,000
Fixed assets, net	778,657	906,625
Intangible assets, net	245,000	280,000
Deferred costs and other long-term assets	71,144	116,057
<b>Total assets</b>	<b>\$ 31,270,504</b>	<b>\$ 40,566,520</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 721,886	\$ 1,086,946
Accrued compensation	1,058,192	1,369,257
Accrued expenses	1,417,362	1,295,577
Current portion of deferred revenue	581,137	699,775
Current portion of capital lease obligation	35,245	30,357
<b>Total current liabilities</b>	<b>3,813,822</b>	<b>4,481,912</b>
Deferred revenue, net of current portion	253,123	341,513
Capital lease obligation, net of current portion	14,289	33,224
<b>Total liabilities</b>	<b>4,081,234</b>	<b>4,856,649</b>
Commitments and contingencies (Notes 7 and 9)		
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; 23,098,331 and 22,969,670 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	2,310	2,297
Additional paid-in capital	138,183,197	137,420,711
Accumulated deficit	(110,996,237)	(101,713,137)

Edgar Filing: NeuroMetrix, Inc. - Form 10-Q

Total stockholders' equity	27,189,270	35,709,871
Total liabilities and stockholders' equity	\$ 31,270,504	\$ 40,566,520

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

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Medical equipment	\$ 512,108	\$ 704,803	\$ 1,053,034	\$ 1,403,772
Consumables	3,340,368	6,055,616	6,365,835	12,182,225
Total revenues	3,852,476	6,760,419	7,418,869	13,585,997
Cost of revenues	1,405,348	1,934,920	2,701,362	3,875,308
Gross margin	2,447,128	4,825,499	4,717,507	9,710,689
<b>Operating expenses:</b>				
Research and development	1,658,050	1,408,674	3,332,531	2,730,436
Sales and marketing	3,143,484	2,921,094	6,383,821	5,441,608
General and administrative	2,176,074	2,360,143	4,315,653	4,692,233
Total operating expenses	6,977,608	6,689,911	14,032,005	12,864,277
Loss from operations	(4,530,480)	(1,864,412)	(9,314,498)	(3,153,588)
Interest income	11,409	63,646	31,398	136,317
Net loss	\$ (4,519,071)	\$ (1,800,766)	\$ (9,283,100)	\$ (3,017,271)
<b>Per common share data, basic and diluted:</b>				
Net loss	\$ (0.20)	\$ (0.13)	\$ (0.40)	\$ (0.22)
<b>Weighted average number of common shares outstanding, basic and diluted</b>				
	23,038,106	13,948,138	23,023,275	13,926,502

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

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

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (9,283,100)	\$ (3,017,271)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	271,366	301,517
Stock-based compensation	604,529	1,070,263
Changes in operating assets and liabilities:		
Accounts receivable	567,987	190,920
Inventories	(331,655)	549,975
Prepaid expenses and other current assets	(22,909)	(61,116)
Accounts payable	(365,060)	1,114,330
Legal settlement		(3,705,866)
Accrued expenses and compensation	(189,280)	(396,565)
Deferred revenue, deferred costs, and other	(139,696)	(105,743)
 Net cash used in operating activities	 (8,887,818)	 (4,059,556)
<b>Cash flows from investing activities:</b>		
Purchases of investments		(4,995,000)
Maturities of investments	4,995,000	2,500,000
Purchases of fixed assets	(108,398)	(167,015)
Purchase of technological and intellectual property		(350,000)
 Net cash provided by (used in) investing activities	 4,886,602	 (3,012,015)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	157,970	245,157
Payments on capital lease	(14,047)	(10,421)
 Net cash provided by financing activities	 143,923	 234,736
 Net decrease in cash and cash equivalents	 (3,857,293)	 (6,836,835)
Cash and cash equivalents, beginning of period	22,937,410	12,302,284
 Cash and cash equivalents, end of period	 \$ 19,080,117	 \$ 5,465,449

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

Table of Contents

**NeuroMetrix, Inc.**

**Notes to Unaudited Financial Statements**

**June 30, 2010**

**1. Business and Basis of Presentation**

**Business**

NeuroMetrix, Inc., or the Company, a Delaware corporation, was founded in June 1996. The Company is a science-based health care company transforming patient care through neurotechnology. To date the Company's focus has been primarily on the assessment of neuropathies. Neuropathies affect the peripheral nerves and parts of the spine and are frequently caused by or associated with carpal tunnel syndrome, diabetes, sciatica, and other clinical disorders. The Company markets systems for the performance of nerve conduction studies and needle electromyography procedures. The Company's product pipeline includes a rapid, low cost, point-of-care test for diabetic peripheral neuropathy, a nerve localization system designed to deliver pharmacologic agents such as anesthetics and corticosteroids in close proximity to nerves for regional anesthesia, pain control, and the treatment of focal neuropathies, and devices and pharmaceutical agents to treat peripheral nerve and spinal cord injuries.

The Company believes that its current cash, cash equivalents, and short-term investments, and the cash to be generated from expected product sales will be sufficient to meet its projected operating requirements through 2011. The Company is currently facing 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) changes in future revenues; (b) changes the Company makes to its ongoing operating expenses; (c) planned changes in the Company's business strategy; (d) regulatory developments affecting the Company and its products; (e) decisions the Company makes regarding the size of its sales force and the magnitude of its sales and marketing programs; (f) changes the Company makes to research and development spending plans; (g) the outcome of the class action lawsuit against the Company; and (h) 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. 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 its operations. However, the Company may not be able to secure such financing on favorable terms, if at all. 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 efforts in an effort to provide sufficient funds to continue its operations.

**Unaudited Interim Financial Statements**

The accompanying unaudited balance sheet as of June 30, 2010, unaudited statements of operations for the quarters and six months ended June 30, 2010 and 2009 and the unaudited statements of cash flows for the six months ended June 30, 2010 and 2009 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 presentation of the Company's financial position and operating results. Operating results for the quarter and six months ended June 30, 2010 are not necessarily indicative of the results



Table of Contents

**NeuroMetrix, Inc.**

**Notes to Unaudited Financial Statements (Continued)**

**June 30, 2010**

**1. Business and Basis of Presentation (Continued)**

that may be expected for the year ending December 31, 2010 or any other period. These financial statements and notes should be read in conjunction with the financial statements for the year ended December 31, 2009 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, or the SEC, on March 12, 2010 (File No. 001-33351). The accompanying balance sheet as of December 31, 2009 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.

**Financial Statements for the Quarter Ended March 31, 2010**

During the second quarter of 2010, the Company identified fraudulent sales transactions involving two sales representatives, resulting in a \$146,333 overstatement of revenues for the quarter ended March 31, 2010. The Company believes that these sales transactions, individually and in the aggregate, are not material to the financial results as reported in previously issued interim financial statements for the quarter ended March 31, 2010. As of and for the quarter ended March 31, 2010, these sales transactions affected the financial statements as follows: an overstatement of revenues of \$146,333; an overstatement of the associated cost of revenue and sales commissions of \$38,078 and \$30,937, respectively; an overstatement of accounts receivable of \$158,239, which includes an overstatement of sales tax payable of \$11,905; an understatement of inventory of \$31,673, net of inventory losses of \$6,405; and an understatement of other current assets of \$32,343 related to an insurance receivable for the associated loss claim less a \$5,000 deductible. The balance sheet and statement of operations as of and for the quarter ended March 31, 2010 are presented below as originally reported and after adjustment for the amounts described above. There was no impact to total net cash used in operating activities within the statement of cash flows for the quarter ended March 31, 2010.

Table of Contents

## NeuroMetrix, Inc.

## Notes to Unaudited Financial Statements (Continued)

June 30, 2010

## 1. Business and Basis of Presentation (Continued)

NeuroMetrix, Inc.  
Balance Sheet  
As of March 31, 2010  
(Unaudited)

	As Previously Reported	Adjustments	As Adjusted
<b>Assets</b>			
Cash and cash equivalents	\$ 20,792,785	\$	\$ 20,792,785
Short-term investments	4,995,000		4,995,000
Accounts receivable, net	3,048,218	(158,239)	2,889,979
Inventories	4,978,525	31,673	5,010,198
Prepaid expenses and other current assets	512,664	32,343	545,007
Current portion of deferred costs	126,850		126,850
 Total current assets	 34,454,042	 (94,223)	 34,359,819
Restricted cash	408,000		408,000
Fixed assets, net	850,975		850,975
Intangible assets, net	262,500		262,500
Deferred costs and other long-term assets	90,761		90,761
 Total assets	 \$ 36,066,278	 \$ (94,223)	 \$ 35,972,055
<b>Liabilities and Stockholders' Equity</b>			
Accounts payable	\$ 1,389,219	\$	\$ 1,389,219
Accrued compensation	784,217		784,217
Accrued expenses	1,374,418	(11,905)	1,362,513
Current portion of deferred revenue	668,405		668,405
Current portion of capital lease obligation	32,710		32,710
 Total current liabilities	 4,248,969	 (11,905)	 4,237,064
Deferred revenue, net of current portion	299,277		299,277
Capital lease obligation, net of current portion	24,110		24,110
 Total liabilities	 4,572,356	 (11,905)	 4,560,451
Commitments and contingencies			
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; 23,038,106 shares issued and outstanding at March 31, 2010	2,304		2,304
Additional paid-in capital	137,886,466		137,886,466
Accumulated deficit	(106,394,848)	(82,318)	(106,477,166)
 Total stockholders' equity	 31,493,922	 (82,318)	 31,411,604

Edgar Filing: NeuroMetrix, Inc. - Form 10-Q

Total liabilities and stockholders' equity	\$	36,066,278	\$	(94,223)	\$	35,972,055
--	----	------------	----	----------	----	------------

Table of Contents**NeuroMetrix, Inc.****Notes to Unaudited Financial Statements (Continued)****June 30, 2010****1. Business and Basis of Presentation (Continued)**

**NeuroMetrix, Inc.**  
**Statement of Operations**  
**For the Quarter Ended March 31, 2010**  
**(Unaudited)**

	As Previously Reported	Adjustments	As Adjusted
<b>Revenues:</b>			
Medical equipment	\$ 580,212	\$ (39,286)	\$ 540,926
Consumables	3,132,514	(107,047)	3,025,467
<b>Total revenues</b>	<b>3,712,726</b>	<b>(146,333)</b>	<b>3,566,393</b>
<b>Cost of revenues</b>	<b>1,334,092</b>	<b>(38,078)</b>	<b>1,296,014</b>
<b>Gross margin</b>	<b>2,378,634</b>	<b>(108,255)</b>	<b>2,270,379</b>
<b>Operating expenses:</b>			
Research and development	1,674,481		1,674,481
Sales and marketing	3,271,274	(30,937)	3,240,337
General and administrative	2,134,579	5,000	2,139,579
<b>Total operating expenses</b>	<b>7,080,334</b>	<b>(25,937)</b>	<b>7,054,397</b>
<b>Loss from operations</b>	<b>(4,701,700)</b>	<b>(82,318)</b>	<b>(4,784,018)</b>
Interest income	19,989		19,989
<b>Net loss</b>	<b>\$ (4,681,711)</b>	<b>\$ (82,318)</b>	<b>\$ (4,764,029)</b>
<b>Per common share data, basic and diluted:</b>			
Net loss	\$ (0.20)	\$ (0.01)	\$ (0.21)
<b>Weighted average number of common shares outstanding, basic and diluted</b>			
	23,008,278		23,008,278

**Revenues**

Medical equipment revenues consist of sales of the NC-stat and ADVANCE Systems, related modules, and revenues from extended service agreements. Revenues associated with the sale of the NC-stat and ADVANCE devices are recognized upon shipment provided that the fee 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 NC-stat docking station, as well as the ADVANCE communication hub together with access to NeuroMetrix information systems, are considered one unit of accounting and are deferred and recognized on a straight line basis over the estimated period of time 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.



Table of Contents

**NeuroMetrix, Inc.**

**Notes to Unaudited Financial Statements (Continued)**

**June 30, 2010**

**1. Business and Basis of Presentation (Continued)**

Consumables revenues consist of sales of single use nerve specific electrodes, EMG needles, and other accessories. Consumables revenues are recognized upon shipment provided that the fee is fixed or determinable, persuasive evidence of an arrangement exists, collection of receivables is reasonably assured, and product returns are reasonably estimable.

The Company's payment terms extended to customers with traditional payment terms generally require payment within 30 days from invoice date. In addition, the Company offers extended payment terms of up to one year for new customers placing large dollar value orders for a combination of medical equipment and consumables. Typically these sales involve installment payments in 12 equal monthly amounts. Revenues are recognized upon shipment provided the selling price is fixed or determinable, persuasive evidence of an arrangement exists, delivery has occurred and risk of loss has passed, collection of the resulting receivables is reasonably assured, and product returns are reasonably estimable. In developing parameters for revenue recognition, the Company relied on its historical experience for similar arrangements. During the quarter ended June 30, 2010, the Company recognized gross revenue of \$515,000 on sales with extended payment terms. During the six months ended June 30, 2010, the Company recognized gross revenue of \$1.2 million on sales with extended payment terms. As of June 30, 2010, accounts receivable, net, included \$1.3 million of amounts under extended payment terms.

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

Proceeds received in advance of product shipment are recorded as deferred revenues.

**Use of Estimates**

The preparation of financial statements in conformity with United States generally accepted accounting principles 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**

In September 2009, the Emerging Issues Task Force, or EITF, issued new rules pertaining to the accounting for revenue arrangements with multiple deliverables. The new rules provide an alternative method for establishing fair value of a deliverable when vendor specific objective evidence cannot be determined. The guidance provides for the determination of the best estimate of selling price to separate deliverables and allows the allocation of arrangement consideration using this relative selling price model. The guidance supersedes the prior multiple element revenue arrangement accounting rules that are currently used by the Company. The new guidance can be prospectively applied by us beginning January 1, 2011 or can be early or retrospectively adopted. The Company is currently evaluating the impact of the new rules including the timing of adoption, but it does not believe adoption will have a material effect on its financial statements.

Table of Contents

**NeuroMetrix, Inc.**

**Notes to Unaudited Financial Statements (Continued)**

**June 30, 2010**

**1. Business and Basis of Presentation (Continued)**

In September 2009, the EITF issued new rules to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. The new guidance can be prospectively applied by us beginning January 1, 2011 or can be early or retrospectively adopted. The Company is currently evaluating the impact of the new rules including the timing of adoption, but it does not believe adoption will have a material effect on its financial statements.

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update No. 2010-06, "*Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*" ("ASU 2010-06"). ASU 2010-06 requires new disclosures regarding significant transfers in and out of Levels 1 and 2, as well as information about activity in Level 3 fair value measurements, including presenting information about purchases, sales, issuances, and settlements on a gross versus a net basis in the Level 3 activity roll forward. In addition, ASU 2010-06 also clarifies existing disclosures regarding input and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities. ASU No. 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures pertaining to purchases, sales, issuances, and settlements in the roll forward of Level 3 activity; those disclosures are effective for interim and annual periods beginning after December 15, 2010. The adoption of ASU 2010-06 had no current impact and is expected to have no subsequent impact on the Company's financial statements.

**2. Comprehensive Loss**

For the quarters and six months ended June 30, 2010 and 2009, the Company had no components of other comprehensive income or loss other than net loss.

**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 outstanding instruments such as options, warrants, and restricted stock. Because the Company has reported a net loss attributable to common stockholders 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

Table of Contents**NeuroMetrix, Inc.****Notes to Unaudited Financial Statements (Continued)****June 30, 2010****3. Net Loss Per Common Share (Continued)**

following potentially dilutive 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Options	3,538,877	3,069,538	3,407,177	2,893,237
Warrants	8,375,694		8,375,694	
Restricted stock	59,563		29,946	
Total	11,974,134	3,069,538	11,812,817	2,893,237

**4. Inventories**

Inventories consist of the following:

	June 30, 2010	December 31, 2009
Purchased components	\$ 1,356,206	\$ 1,346,267
Finished goods	3,535,056	3,213,340
	\$ 4,891,262	\$ 4,559,607

**5. Intangible Assets**

In January 2009, the Company acquired certain technological and intellectual property assets from Cyberkinetics Neurotechnology Systems, Inc., or Cyberkinetics, and Andara Life Science, Inc., a wholly-owned subsidiary of Cyberkinetics, for \$350,000 in cash. The Company is amortizing these intangible assets using the straight-line method over their economic lives, which is estimated to be five years. Research and development expenses for the quarters ended June 30, 2010 and 2009 each included amortization of this technological and intellectual property of \$17,500. Research and development expenses for the six months ended June 30, 2010 and 2009 each included \$35,000 of such amortization. Accumulated amortization on these intangible assets at June 30, 2010 was \$105,000.

The estimated future amortization expense for intangible assets as of June 30, 2010 is as follows:

	Estimated Amortization Expense
2010 (remaining six months)	\$ 35,000
2011	70,000
2012	70,000
2013	70,000
	\$ 245,000





Table of Contents**NeuroMetrix, Inc.****Notes to Unaudited Financial Statements (Continued)****June 30, 2010****6. Accrued Expenses**

Accrued expenses consist of the following:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Professional services	\$ 469,643	\$ 488,191
Customer overpayments	514,325	306,251
License fee	125,000	
Sales taxes	80,147	191,601
Other	228,247	309,534
	\$ 1,417,362	\$ 1,295,577

*Product Warranty Costs*

The Company accrues estimated product warranty costs at the time of sale which are included in cost of sales in the statements of operations. The amount of the accrued warranty liability is based on historical information such as past experience, product failure rates, number of units repaired, and estimated cost of material and labor. The liability for product warranty costs is included in accrued expenses in the balance sheet.

The following is a rollforward of the Company's accrued warranty liability for the quarters and six months ended June 30, 2010 and 2009:

	<b>Quarter Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Balance at beginning of period	\$ 47,577	\$ 62,881	\$ 48,355	\$ 136,170
Accrual for warranties	1,357	2,198	2,571	4,762
Settlements made	(1,348)	(10,574)	(3,340)	(86,427)
Balance at end of period	\$ 47,586	\$ 54,505	\$ 47,586	\$ 54,505

Table of Contents**NeuroMetrix, Inc.****Notes to Unaudited Financial Statements (Continued)****June 30, 2010****7. Commitments and Contingencies***Operating Lease*

The Company leases office and engineering laboratory space in Waltham, Massachusetts. The lease term extends through March 31, 2013. Base rent for the period April 2010 through March 2013 ranges from \$705,000 to \$765,000 on an annualized basis.

Future minimum lease payments under noncancelable operating leases as of June 30, 2010 are as follows:

2010 (remaining six months)	\$	352,500
2011		727,500
2012		757,500
2013		191,250
<b>Total minimum lease payments</b>	<b>\$</b>	<b>2,028,750</b>

**8. 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 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.

	June 30, 2010	Fair Value Measurements at June 30, 2010 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Cash equivalents	\$ 14,723,927	\$ 14,723,927	\$	\$
<b>Total</b>	<b>\$ 14,723,927</b>	<b>\$ 14,723,927</b>	<b>\$</b>	<b>\$</b>

Table of Contents

**NeuroMetrix, Inc.**

**Notes to Unaudited Financial Statements (Continued)**

**June 30, 2010**

**8. Fair Value Measurements (Continued)**

	<b>Fair Value Measurements at December 31, 2009 Using</b>		
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2009</b>			
<b>Assets:</b>			