

**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, 2020

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: **001-38546**

**NEURONETICS, INC.**

(Exact name of registrant as specified in its charter)

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

**33-1051425**  
(I.R.S. Employer Identification No.)

**3222 Phoenixville Pike, Malvern, PA**  
(Address of principal executive offices)

**19355**  
(Zip Code)

**(610) 640-4202**  
(Registrant's telephone number, including area code)

**Not applicable.**  
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol (s)</u>	<u>Name on each exchange on which registered</u>
Common Stock (\$0.01 par value)	STIM	The Nasdaq Global Market

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 every Interactive Data File required to be submitted 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 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 an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

There were 18,975,322 shares of the registrant's common stock outstanding as of October 30, 2020.

Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020

Table of Contents

	<u>Page</u>
<b>PART I – FINANCIAL INFORMATION</b>	
<b>Item 1.</b>	
<a href="#"><u>Financial Statements.</u></a>	3
<a href="#"><u>Balance Sheets as of September 30, 2020 and December 31, 2019</u></a>	3
<a href="#"><u>Statements of Operations for the Three and Nine Months ended September 30, 2020 and 2019</u></a>	4
<a href="#"><u>Statement of Changes in Stockholders' Equity for the Three and Nine Months ended September 30, 2020 and 2019</u></a>	5
<a href="#"><u>Statements of Cash Flows for the Nine Months ended September 30, 2020 and 2019</u></a>	6
<a href="#"><u>Notes to Interim Financial Statements</u></a>	7
<b>Item 2.</b>	
<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u></a>	20
<b>Item 3.</b>	
<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk.</u></a>	32
<b>Item 4.</b>	
<a href="#"><u>Controls and Procedures.</u></a>	32
<b>PART II – OTHER INFORMATION</b>	
<b>Item 1.</b>	
<a href="#"><u>Legal Proceedings.</u></a>	34
<b>Item 1A</b>	
<a href="#"><u>Risk Factors</u></a>	34
<b>Item 2.</b>	
<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds.</u></a>	34
<b>Item 3.</b>	
<a href="#"><u>Defaults Upon Senior Securities.</u></a>	34
<b>Item 4.</b>	
<a href="#"><u>Mine Safety Disclosures.</u></a>	34
<b>Item 5.</b>	
<a href="#"><u>Other Information.</u></a>	34
<b>Item 6.</b>	
<a href="#"><u>Exhibits.</u></a>	35
<a href="#"><u>SIGNATURES</u></a>	36

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

**NEURONETICS, INC.**  
**Balance Sheets**  
(Unaudited; In thousands, except per share data)

	September 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 50,719	\$ 75,708
Accounts receivable, net	5,564	6,569
Inventory	3,779	2,775
Current portion of net investments in sales-type leases	1,626	880
Current portion of prepaid commission expense	850	689
Prepaid expenses and other current assets	2,662	1,830
Total current assets	<u>65,200</u>	<u>88,451</u>
Property and equipment, net	787	1,107
Operating lease right-of-use assets	3,515	3,796
Net investments in sales-type leases	2,255	1,730
Prepaid commission expense	4,688	3,779
Other assets	1,894	1,305
Total Assets	<u>\$ 78,339</u>	<u>\$ 100,168</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,368	\$ 4,625
Accrued expenses	6,171	9,031
Deferred revenue	2,115	2,228
Current portion of operating lease liabilities	585	559
Current portion of long-term debt, net	34,542	11,250
Total current liabilities	<u>45,781</u>	<u>27,693</u>
Long-term debt, net	-	19,898
Deferred revenue	1,863	2,106
Operating lease liabilities	3,217	2,619
Total Liabilities	<u>50,861</u>	<u>52,316</u>
Commitments and contingencies (Note 16)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value: 10,000 shares authorized; no shares issued or outstanding at September 30, 2020 and December 31, 2019	-	-
Common stock, \$0.01 par value: 200,000 shares authorized; 18,959 and 18,645 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	189	186
Additional paid-in capital	301,172	297,753
Accumulated deficit	(273,883)	(250,087)
Total Stockholders' Equity	<u>27,478</u>	<u>47,852</u>
Total Liabilities and Stockholders' Equity	<u>\$ 78,339</u>	<u>\$ 100,168</u>

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

**NEURONETICS, INC.**  
**Statements of Operations**  
(Unaudited; In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 12,448	\$ 16,000	\$ 33,665	\$ 45,300
Cost of revenues	2,657	4,192	7,791	11,170
Gross Profit	9,791	11,808	25,874	34,130
Operating expenses:				
Sales and marketing	6,053	10,362	24,926	31,477
General and administrative	4,210	4,285	13,508	13,145
Research and development	1,952	3,489	7,089	9,499
Total operating expenses	12,215	18,136	45,523	54,121
Loss from Operations	(2,424)	(6,328)	(19,649)	(19,991)
Other (income) expense:				
Interest expense	1,002	930	3,511	2,780
Loss on extinguishment of debt	-	-	924	-
Other (income) expense, net	(8)	(391)	(288)	(1,281)
Net Loss	\$ (3,418)	\$ (6,867)	\$ (23,796)	\$ (21,490)
Net loss per share of common stock outstanding, basic and diluted	\$ (0.18)	\$ (0.37)	\$ (1.27)	\$ (1.17)
Weighted-average common shares outstanding, basic and diluted	18,890	18,508	18,773	18,296

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

**NEURONETICS, INC.**  
**Statement of Changes in Stockholders' Equity**  
**(Unaudited; In thousands)**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2018	17,744	\$ 177	\$ 291,908	\$ (221,043)	\$ 71,042
Share-based awards and options exercises	483	5	1,402	-	1,407
Share-based compensation expense	-	-	501	-	501
Net loss	-	-	-	(7,529)	(7,529)
Balance at March 31, 2019	18,227	\$ 182	\$ 293,811	\$ (228,572)	\$ 65,421
Share-based awards and options exercises	218	2	468	-	470
Share-based compensation expense	-	-	1,022	-	1,022
Net loss	-	-	-	(7,094)	(7,094)
Balance at June 30, 2019	18,445	\$ 184	\$ 295,301	\$ (235,666)	\$ 59,819
Share-based awards and options exercises	157	2	441	-	443
Share-based compensation expense	-	-	935	-	935
Net loss	-	-	-	(6,867)	(6,867)
Balance at September 30, 2019	18,602	\$ 186	\$ 296,677	\$ (242,533)	\$ 54,330
Balance at December 31, 2019	18,645	\$ 186	\$ 297,753	\$ (250,087)	\$ 47,852
Share-based awards and options exercises	81	1	75	-	76
Share-based compensation expense	-	-	1,196	-	1,196
Net loss	-	-	-	(12,613)	(12,613)
Balance at March 31, 2020	18,726	\$ 187	\$ 299,024	\$ (262,700)	\$ 36,511
Share-based awards and options exercises	83	1	47	-	48
Share-based compensation expense	-	-	646	-	646
Net loss	-	-	-	(7,765)	(7,765)
Balance at June 30, 2020	18,809	\$ 188	\$ 299,717	\$ (270,465)	\$ 29,440
Share-based awards and options exercises	150	1	409	-	410
Share-based compensation expense	-	-	1,046	-	1,046
Net loss	-	-	-	(3,418)	(3,418)
Balance at September 30, 2020	18,959	\$ 189	\$ 301,172	\$ (273,883)	\$ 27,478

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

**NEURONETICS, INC.**  
**Statements of Cash Flows**  
**(Unaudited; In thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (23,796)	\$ (21,490)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	741	765
Share-based compensation	2,888	2,458
Non-cash interest expense	1,113	555
Cost of rental units purchased by customers	150	144
Loss on extinguishment of debt	622	-
<b>Changes in certain assets and liabilities:</b>		
Accounts receivable, net	1,005	(1,933)
Inventory	(1,004)	(455)
Net investments in sales-type leases	(1,271)	(1,774)
Leasehold reimbursement	875	-
Prepaid commission expense	(1,070)	(2,907)
Prepaid expenses and other assets	(1,263)	183
Accounts payable	(2,340)	10
Accrued expenses	(2,981)	80
Deferred revenue	(356)	285
Net Cash Used in Operating Activities	<u>(26,687)</u>	<u>(24,079)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment and capitalized software	(615)	(454)
Net Cash Used in Investing Activities	<u>(615)</u>	<u>(454)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of long-term debt	41,360	-
Repayment of long-term debt	(38,860)	-
Payments of debt issuance costs	(721)	-
Proceeds from exercises of stock options	534	2,320
Net Cash Provided by Financing Activities	<u>2,313</u>	<u>2,320</u>
Net Decrease in Cash and Cash Equivalents	<u>(24,989)</u>	<u>(22,213)</u>
Cash and Cash Equivalents, Beginning of Period	75,708	104,583
Cash and Cash Equivalents, End of Period	<u>\$ 50,719</u>	<u>\$ 82,370</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 3,060	\$ 2,240
Transfer of inventory to property and equipment	\$ -	\$ 37
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Purchases of property and equipment and capitalized software in accounts payable and accrued expenses	\$ 83	\$ 31

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

**NEURONETICS, INC.**  
**Notes to Interim Financial Statements**  
**(Unaudited)**

**1. DESCRIPTION OF BUSINESS**

Neuronetics, Inc., or the Company, is a commercial stage medical technology company focused on designing, developing and marketing products that improve the quality of life for patients who suffer from psychiatric disorders. The Company's first commercial product, the NeuroStar Advanced Therapy System, is a non-invasive and non-systemic office-based treatment that uses transcranial magnetic stimulation, or TMS, to create a pulsed, MRI-strength magnetic field that induces electrical currents designed to stimulate specific areas of the brain associated with mood. The system was cleared in 2008 by the United States Food and Drug Administration, or the FDA, to treat adult patients with major depressive disorder, or MDD, who have failed to achieve satisfactory improvement from prior antidepressant medication in the current episode. NeuroStar Advanced Therapy is also available in other parts of the world, including Japan, where it is listed under Japan's national health insurance. The Company intends to continue to pursue development of its NeuroStar Advanced Therapy System for additional indications.

**COVID-19**

The Company is monitoring the impact of the COVID-19 pandemic on all aspects of its business and geographies, including how it will impact the Company's customers, supply chain, employees and other business partners. While the Company began to experience significant disruptions in March 2020 through the end of September 2020, from the COVID-19 pandemic, it is unable to predict the full impact that the COVID-19 pandemic may have on its financial condition, results of operations and cash flows due to numerous uncertainties. These uncertainties include the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact and the direct and indirect economic effects of the pandemic and containment measures, among others. The outbreak of COVID-19 in many countries, including the United States, has significantly adversely impacted global economic activity and has contributed to significant volatility and negative pressure in financial markets.

The Company applied for and received a \$6.4 million loan in April 2020 under the Paycheck Protection Program (the "PPP") established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") on March 27, 2020. Due to questions concerning the eligibility of public companies similarly situated to the Company, on May 7, 2020, the Company repaid the loan in full, including interest accrued to date.

**Liquidity**

As of September 30, 2020, the Company had cash and cash equivalents of \$50.7 million and an accumulated deficit of \$273.9 million. The Company incurred negative cash flows from operating activities of \$30.5 million for the year ended December 31, 2019 and \$26.7 million for the nine months ended September 30, 2020. The Company has incurred operating losses since its inception, and management anticipates that its operating losses will continue in the near term as the Company continues to invest in sales, marketing and product development activities. The Company's primary sources of capital to date have been proceeds from its IPO, private placements of its convertible preferred securities, borrowings under its credit facilities and revenues from sales of its products. As of September 30, 2020, the Company had \$35.0 million of borrowings outstanding under its credit facility, which has a final maturity in February 2025. As discussed in Note 12, the outstanding balance under the credit facility is classified as a current liability as of September 30, 2020. Management believes that the Company's cash and cash equivalents and anticipated revenues from sales of its products are sufficient to fund the Company's operations (including the potential repayment of the credit facility if a waiver or amendment is not obtained) for at least 12 months from the issuance of these financial statements.

**2. BASIS OF PRESENTATION**

The accompanying financial statements have been prepared in accordance with United States generally accepted accounting principles, or GAAP. Any reference in these notes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification, or ASC, and Accounting Standards Updates, or ASUs, promulgated by the Financial Accounting Standards Board, or FASB.

**Interim Financial Statements**

The accompanying unaudited interim financial statements have been prepared from the books and records of the Company in accordance with GAAP for interim financial information and Rule 10-01 of Regulation S-X promulgated by the United States Securities and Exchange Commission, or SEC, which permit reduced disclosures for interim periods. All adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the accompanying balance sheets and statements of operations and stockholders' deficit and cash flows have been made. Although these interim financial statements do not include all of the information and footnotes required for complete annual financial statements, management believes the disclosures are adequate to make the information presented not misleading. Unaudited interim results of operations and cash flows for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the full year. Unaudited interim financial statements and footnotes should be read in conjunction with the audited financial statements and footnotes included in the Company's Form 10-K filed with the SEC on March 3, 2020, wherein a more complete discussion of significant accounting policies and certain other information can be found.

**NEURONETICS, INC.**  
**Notes to Interim Financial Statements**  
**(Unaudited)**

**Use of Estimates**

The preparation of financial statements in accordance with GAAP and the rules and regulations of the SEC requires the use of estimates and assumptions, based on judgments considered reasonable, which 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 revenues and expenses during the reporting period. The Company bases its estimates and assumptions on historical experience, known trends and events and various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Although management believes its estimates and assumptions are reasonable when made, they are based upon information available at the time they are made. Management evaluates the estimates and assumptions on an ongoing basis and, if necessary, makes adjustments. Due to the risks and uncertainties involved in the Company's business and evolving market conditions and given the subjective element of the estimates and assumptions made, actual results may differ from estimated results.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company's complete summary of significant accounting policies can be found in "Note 3. Summary of Significant Accounting Policies" in the audited financial statements included in the Company's Form 10-K filed with the SEC on March 3, 2020.

**4. RECENT ACCOUNTING PRONOUNCEMENTS**

***New Accounting Standards Recently Adopted by the Company***

In August 2018, the FASB issued *ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* ("ASU 2018-15"), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license).

ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The amendments in ASU 2018-15 should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company adopted this standard on a prospective basis, effective January 1, 2020.

***New Accounting Standards Not Yet Adopted by the Company***

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("Topic 326"). This ASU provides guidance for recognizing credit losses on financial instruments based on an estimate of current expected credit losses model. The FASB subsequently issued *ASU 2019-04*, to clarify and address certain items related to the amendments in Topic 326.

*ASU 2019-05, Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief*, was issued to provide entities that have certain instruments within the scope of ASC 326 with an option to irrevocably elect the fair value option under *ASC 825-10, Financial Instruments - Overall*, applied on an instrument-by-instrument basis for eligible instruments.

These ASUs are effective for fiscal years beginning after December 15, 2022 for entities that are eligible to be defined by the SEC as a smaller reporting company. The Company is a smaller reporting company.

**5. FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS**

The carrying values of cash equivalents, accounts receivable, prepaids and other current assets, and accounts payable on the Company's balance sheets approximated their fair values as of September 30, 2020 and December 31, 2019 due to their short-term nature. The carrying values of the Company's credit facility approximated its fair value as of September 30, 2020 and December 31, 2019 due to its variable interest rate.



**NEURONETICS, INC.**  
**Notes to Interim Financial Statements**  
**(Unaudited)**

Certain of the Company's financial instruments are measured at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1: Inputs are quoted prices for identical instruments in active markets.

Level 2: Inputs are quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Inputs are unobservable and reflect the Company's own assumptions, based on the best information available, including the Company's own data.

The following tables set forth the carrying amounts and fair values of the Company's financial instruments as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020				
	Carrying Amount	Fair Value	Fair Value Measurement Based on		
			Quoted Prices In Active Markets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>					
Money market funds (cash equivalents)	\$ 48,115	\$ 48,115	\$ 48,115	\$ -	\$ -

	December 31, 2019				
	Carrying Amount	Fair Value	Fair Value Measurement Based on		
			Quoted Prices In Active Markets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>					
Money market funds (cash equivalents)	\$ 67,650	\$ 67,650	\$ 67,650	\$ -	\$ -

**6. ACCOUNTS RECEIVABLE**

The following table presents the composition of accounts receivable, net as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Gross accounts receivable - trade	\$ 6,620	\$ 7,117
Less: Allowances for doubtful accounts	(1,056)	(548)
Accounts receivable, net	<u>\$ 5,564</u>	<u>\$ 6,569</u>

**NEURONETICS, INC.**  
**Notes to Interim Financial Statements**  
**(Unaudited)**

**7. PROPERTY AND EQUIPMENT AND CAPITALIZED SOFTWARE**

The following table presents the composition of property and equipment, net as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Laboratory equipment	\$ 150	\$ 150
Office equipment	487	487
Computer equipment and software	1,301	1,218
Manufacturing equipment	273	273
Leasehold improvements	459	423
Rental equipment	462	763
Property and equipment, gross	3,132	3,314
Less: Accumulated depreciation	(2,345)	(2,207)
Property and equipment, net	<u>\$ 787</u>	<u>\$ 1,107</u>

As of September 30, 2020 and December 31, 2019, the Company had capitalized software costs, net of \$1.3 million and \$1.2 million, respectively, which are included in "Other assets" on the balance sheet.

Depreciation and amortization expense was \$0.2 million and \$0.3 million for the three months ended September 30, 2020 and 2019, respectively and \$0.7 million and \$0.8 million for the nine months ended September 30, 2020 and 2019, respectively .

**8. LEASES**

*Lessee:*

The Company has operating leases for its corporate headquarters and office equipment, including copiers. The Company leases approximately 42,000 square foot facility in Malvern, Pennsylvania for its corporate headquarters, which includes office and warehouse space. The Company does not currently have any finance leases or executed leases that have not yet commenced.

Operating lease rent expense was \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 the weighted-average remaining lease term of operating leases was 7.3 years and the weighted-average discount rate was 6.5%.

In the first quarter of 2020, the Company received a reimbursement of \$0.8 million for leasehold expenses previously incurred in connection with the lease agreement for its Malvern facility. The reimbursement was recorded as an offset to the non-current lease liability that was established when the lease agreement was executed.

The following table presents the supplemental cash flow information as a lessee related to leases (in thousands):

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 575	\$ 330
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ -	\$ 4,164

**NEURONETICS, INC.**  
**Notes to Interim Financial Statements**  
**(Unaudited)**

The following table sets forth by year the required future payments of operating lease liabilities (in thousands):

	<u>September 30, 2020</u>
Remainder of 2020	\$ 148
2021	616
2022	641
2023	637
2024	646
Thereafter	2,147
Total lease payments	<u>4,835</u>
Less imputed interest	(1,033)
Present value of operating lease liabilities	<u>\$ 3,802</u>

*Lessor sales-type leases:*

Certain customers have purchased NeuroStar Advanced Therapy Systems on a rent-to-own basis. The lease term is three years with a customer option to purchase the NeuroStar Advanced Therapy System at the end of the lease or automatic transfer of ownership of the NeuroStar Advanced Therapy System at the end of the lease.

The following table sets forth the profit recognized on sales-type leases (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Profit recognized at commencement, net	\$ 81	\$ 506	\$ 807	\$ 768
Interest income	-	-	-	-
Total sales-type lease income	<u>\$ 81</u>	<u>\$ 506</u>	<u>\$ 807</u>	<u>\$ 768</u>

The following table sets forth a maturity analysis of the undiscounted lease receivables related to sales-type leases (in thousands):

	<u>September 30, 2020</u>
Remainder of 2020	\$ 406
2021	1,624
2022	1,420
2023	431
Total sales-type lease receivables	<u>\$ 3,881</u>

As of September 30, 2020, the carrying amount of the lease receivables is \$3.9 million. The Company does not have any unguaranteed residual assets.

*Lessor operating leases:*

NeuroStar Advanced Therapy Systems sold on a rent-to-own basis prior to January 1, 2019 are accounted for as operating leases. For the three months ended September 30, 2020 and 2019, the Company recognized operating lease income of \$0.1 million and \$0.2 million, respectively. For the nine months ended September 30, 2020 and 2019, the Company recognized operating lease income of \$0.2 million and \$0.6 million, respectively.

The following table sets forth a maturity analysis of its undiscounted lease receivables related to operating leases:

	<u>September 30, 2020</u>
Remainder of 2020	\$ 261
2021	150
Total lease receivables	<u>\$ 411</u>

**NEURONETICS, INC.**  
**Notes to Interim Financial Statements**  
**(Unaudited)**

The Company maintained Rental Equipment, net of \$0.3 million and \$0.5 million, as of September 30, 2020 and December 31, 2019, respectively, which are included in "Property and equipment, net" on the balance sheet. Rental equipment depreciation expense was \$0.02 million and \$0.1 million for the three months ended September 30, 2020 and 2019, respectively and \$0.1 million and \$0.2 million for the nine months ended September 30, 2020 and 2019 .

**9. PREPAID COMMISSION EXPENSE**

The Company pays a commission on both System sales and Treatment Session sales. Since the commission paid for System sales is not commensurate with the commission paid for Treatment Sessions, the Company capitalizes commission expense associated with System sales commissions paid that is incremental to specifically anticipated future Treatment Session orders. In developing this estimate, the Company considered its historical Treatment Session sales and customer retention rates, as well as technology development life cycles and other industry factors. These costs are periodically reviewed for impairment.

NeuroStar Advanced Therapy System commissions are deferred and amortized on a straight-line basis over a seven year period equal to the average customer term, which the Company deems to be the expected period of benefit for these costs.

On the Company's balance sheets, the current portion of capitalized contract costs is represented by the current portion of prepaid commission expense, while the long-term portion is included in prepaid commission expense. Amortization expense was \$0.2 million and \$0.1 million for the three months ended September 30, 2020 and 2019, respectively, and \$0.6 million and \$0.2 million for the nine months ended September 30, 2020 and 2019, respectively.

**10. ACCRUED EXPENSES**

The following table presents the composition of accrued expenses as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Compensation and related benefits	\$ 3,704	\$ 5,724
Consulting and professional fees	396	373
Research and development expenses	574	674
Sales and marketing expenses	43	127
Warranty	434	639
Sales and other taxes payable	586	700
Interest payable	-	234
Other	434	560
Accrued expenses	<u>\$ 6,171</u>	<u>\$ 9,031</u>

**11. DEFERRED REVENUE**

Payment terms typically require payment upon shipment or installation of the System and additional payments as access codes for Treatment Sessions are delivered, which can span several years after the System is first delivered and installed. The timing of revenue recognition compared to billings and cash collections typically results in accounts receivable. However, sometimes customer advances and deposits might be required for certain customers and are recorded as deferred revenue. For multi-year agreements, the Company generally invoices customers annually at the beginning of each annual coverage period and recognizes revenue over the term of the coverage period.

As of September 30, 2020, the Company expects to recognize approximately the following percentages of deferred revenue by year:

Year:	Revenue Recognition
Remainder of 2020	25%
2021	29%
2022	14%
2023	14%
2024	14%
Thereafter	4%
Total	<u>100%</u>

## Notes to Interim Financial Statements

(Unaudited)

Revenue recognized for the three and nine months ended September 30, 2020 that was included in the contract liability balance at the beginning of the year was \$0.4 million and \$1.7 million respectively, and primarily represented revenue earned from separately priced extended warranties, rent-to-own revenue, milestone revenue, and clinical training.

*Customers*

For the three and nine months ended September 30, 2020 one customer accounted for more than 10% of the Company's revenues. No customers accounted for more than 10% of the Company's revenues for the three months ended September 30, 2019 and one customer accounted for more than 10% for the nine months ended September 30, 2019.

**12. DEBT**

The following table presents the composition of debt as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Outstanding principal	\$ 35,000	\$ 30,000
Accrued final payment fees	1,925	1,838
Less debt discounts	(2,383)	(690)
Total debt, net	34,542	31,148
Less current portion	(34,542)	(11,250)
Long-term debt, net	\$ -	\$ 19,898

For the three months ended September 30, 2020, the Company recognized interest expense of \$1.0 million, of which \$0.8 million was cash and \$0.2 million was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of final payment fees. For the three months ended September 30, 2019, the Company recognized interest expense of \$0.9 million, of which \$0.7 million was cash paid for interest during the period and \$0.2 million was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of final payment fees.

For the nine months ended September 30, 2020, the Company recognized interest expense of \$3.5 million, of which \$3.1 million was cash and \$0.4 million was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of final payment fees. For the nine months ended September 30, 2019, the Company recognized interest expense of \$2.8 million, of which \$2.2 million was cash paid for interest during the period and \$0.6 million was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of final payment fees.

**Solar Credit Facility**

On March 2, 2020, the "Company entered into a loan and security agreement with Solar Capital Ltd., or Solar, as collateral agent, and other lenders defined in the agreement, for a credit facility, or the Solar Facility, that replaced the Company's previous \$35.0 million credit facility with Oxford Finance LLC, or Oxford, and such facility, the Oxford Facility.

The Solar Facility permits the Company to borrow up to an aggregate amount of \$50.0 million in two tranches of term loans, a "Term A Loan" and "Term B Loan." On March 2, 2020, the Company borrowed an aggregate amount of \$35.0 million, which was the aggregate amount available under the Term A Loan portion of the Solar Facility. The Term A Loan portion of the Solar Facility matures, and all amounts borrowed thereunder are due, on February 28, 2025. Under the Term B Loan portion of the Solar Facility, the Company is permitted to borrow, at its election, up to an aggregate amount of \$15.0 million, (i) upon the Company achieving a specified amount of trailing twelve months net product revenue, and (ii) assuming there has been no event of default under the Solar Facility prior to such election. Once the net product revenue condition has been satisfied, the Company may only make an election to borrow under the Term B Loan portion of the Solar Facility until the earlier of (a) December 15, 2021, (b) 30 days following achievement of the net product revenue condition or (c) the occurrence of an event of default.

Each of the Term A Loan and Term B Loan accrue interest from the date of borrowing through the date of repayment at a floating per annum rate of interest, which resets monthly and is equal to 7.65% plus the greater of (a) 1.66% or (b) the rate per annum rate published by the Intercontinental Exchange Benchmark Administration Ltd. The Term A Loan and the Term B Loan both include an interest-only period through March 1, 2022, after which time the Company will be required to make monthly payments of principal and interest. Monthly principal payments are to be paid in equal amounts on a pro rata basis to lenders. At the Company's election, the interest only period may be extended through February 2023 if the Company satisfies a minimum net product revenue covenant through March 1, 2022 and no event of default shall have occurred.

**NEURONETICS, INC.**  
**Notes to Interim Financial Statements**  
**(Unaudited)**

In addition to the principal and interest payments due under the Solar Facility, the Company is required to pay a final payment fee to Solar due upon the earlier of prepayment, acceleration or the maturity date of the Term A Loan or Term B Loan portion of the Solar Facility equal to 5.50% of the principal amount of the term loans actually funded. The Company is accruing the final payment fees using the effective interest rate, with a charge to non-cash interest expense, over the term of borrowing. If the Company prepays either the of the Term A Loan or Term B Loan prior to their respective scheduled maturities, the Company will also be required to pay prepayment fees to Solar equal to 3% of the principal amount of such term loan then-prepaid if prepaid on or before the first anniversary of funding, 2% of the principal amount of such term loan then-prepaid if prepaid after the first anniversary and on or before the second anniversary of funding, or 1% of the principal amount of such term loan then-prepaid if prepaid after the second anniversary of funding of the principal amounts borrowed.

The Company is also required to pay Solar an exit fee upon the occurrence, prior to March 2, 2030, of (a) any liquidation, dissolution or winding up of the Company, (b) transaction that results in a person obtaining control over the Company, (c) the Company achieving \$100 million in trailing twelve month net product revenue or (d) the Company achieving \$125 million in trailing twelve month net product revenue. The exit fee for liquidation, dissolution, winding up or change of control of the Company is equal to 4.50% of the principal amount of the term loans actually funded. The exit fee for achieving either \$100 million or \$125 million in trailing twelve-month net product revenue is equal to 2.25% of the principal amount of the term loans actually funded or, if both net product revenue milestones are achieved, 4.50% of the principal amount of the term loans actually funded. The exit fee is capped at 4.50% of the principal amount of the term loans actually funded.

The Company's obligations under the Solar Facility are secured by a first priority security interest in substantially all of its assets, including its intellectual property. The loan and security agreement requires the Company to comply with certain financial covenants as well as customary affirmative and negative covenants.

The Solar Facility contains events of default, including, without limitation, events of default upon: (i) failure to make payment pursuant to the terms of the agreement; (ii) violation of covenants; (iii) material adverse changes to the Company's business; (iv) attachment or levy on the Company's assets or judicial restraint on its business; (v) insolvency; (vi) material cross-defaults; (vii) significant judgments, orders or decrees for payments by the Company not covered by insurance; (viii) incorrectness of representations and warranties; (ix) incurrence of subordinated debt; (x) a termination or breach of a guaranty; (xi) revocation of governmental approvals necessary for the Company to conduct its business; and (xii) failure by the Company to maintain a valid and perfected lien on the collateral securing the borrowing.

As of September 30, 2020, the Company is in compliance with all covenants in the Solar Facility.

The Solar Facility includes a financial covenant requiring the attainment of a minimum trailing net revenue amount beginning on December 31, 2020. Based upon the Company's projected revenues for the rest of 2020, the Company believes that it is probable that this minimum revenue covenant will not be achieved. The Company is in discussions with the lenders for a potential covenant waiver or amendment, however, no formal agreement has been executed. The Solar Facility also includes subjective acceleration clauses which permit the lenders to accelerate the maturity date under certain circumstances, including, but not limited to, material adverse effects on a Company's financial status or otherwise. In accordance with FASB ASC 470 because the Solar Facility contains subjective acceleration clauses and the assessment that it is probable that the revenue covenant will not be met as of December 31, 2020, the outstanding principal under the Solar Facility is classified as a current liability in the accompanying balance sheet as of September 30, 2020.

#### **Oxford Credit Facility**

Prior to March 2020, the Company had a \$35.0 million credit facility in place with Oxford, which it entered into in March 2017 and that allowed it to borrow up to \$35.0 million in three tranches of term loans: a Term A Loan in the amount of \$25 million, which was drawn immediately upon closing in March 2017, a Term B Loan in the amount of \$5.0 million, which was drawn down in December 2017, and a Term C Loan in the amount of \$5.0 million which was never drawn down. Each term loan accrued interest from the date of borrowing through the date of repayment at a floating per annum rate of interest, which reset monthly and was equal to the greater of (a) 8.15% or (b) the 30 day U.S. LIBOR on the last business day of the month plus 7.38%. This facility featured an interest-only period on all tranches through March 2019.

**NEURONETICS, INC.**  
**Notes to Interim Financial Statements**  
**(Unaudited)**

In addition to principal and interest payments due under the \$35.0 million Oxford credit facility, the Company was required to make final payment fees to Oxford upon the earlier of prepayment or maturity and equal to 8.5% and 7.5% of the principal amounts of the Term A and Term B Loans, respectively. The Company accrued final payment fees using the effective interest rate, with a charge to non-cash interest expense, over the term of borrowing and until its entry into the Solar credit facility in March 2020, at which time the Company paid Oxford \$2.5 million in satisfaction of all final payment fee liabilities due under the Oxford credit facility.

The Company evaluated whether the Solar Facility entered into in March 2020 represented a debt modification or extinguishment in accordance with ASC 470-50, Debt—Modifications and Extinguishments and determined that the existing debt was extinguished as a result of the full repayment of the existing facility and concurrent issuance of a new credit facility with a new lender. The unamortized balance of the Company’s combined debt discount and deferred issuance costs of \$0.6 million related to the Oxford facility were accounted for as a loss on extinguishment of debt.

**13. COMMON STOCK**

**Common Stock**

The following table summarizes the total number of shares of the Company’s common stock issued and reserved for issuance as of September 30, 2020 and December 31, 2019 (in thousands):

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Shares of common stock issued	18,959	18,645
Shares of common stock reserved for issuance for:		
Common stock warrants outstanding	105	105
Stock options outstanding	2,594	2,415
Restricted stock units and awards outstanding	2,350	245
Shares available for grant under stock incentive plan	1,354	1,215
Shares available for sale under employee stock purchase plan	608	421
Total shares of common stock issued and reserved for issuance	<u>25,970</u>	<u>23,046</u>

**Common Stock Warrants**

The following table summarizes the Company’s outstanding common stock warrants as of September 30, 2020 and December 31, 2019:

Warrants Outstanding (in thousands)		Exercise Price	Expiration Date
14	\$	19.55	Dec-2022
30	\$	9.73	Feb-2021
20	\$	9.73	Aug-2023
20	\$	9.73	Mar-2024
21	\$	9.73	Dec-2024
<u>105</u>			

## Notes to Interim Financial Statements

(Unaudited)

**14. LOSS PER SHARE**

The Company's basic loss per common share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. The Company's restricted stock awards (non-vested shares) are issued and outstanding at the time of grant but are excluded from the Company's computation of weighted-average shares outstanding in the determination of basic loss per share until vesting occurs.

A net loss cannot be diluted, so when the Company is in a net loss position, basic and diluted loss per common share are the same. If in the future the Company achieves profitability, the denominator of a diluted earnings per common share calculation will include both the weighted-average number of shares outstanding and the number of common stock equivalents, if the inclusion of such common stock equivalents would be dilutive. Dilutive common stock equivalents potentially include warrants, stock options and non-vested restricted stock awards and units using the treasury stock method, along with the effect, if any, from the potential conversion of outstanding securities, such as convertible preferred stock.

The following potentially dilutive securities outstanding as of September 30, 2020 and 2019 have been excluded from the denominator of the diluted loss per share of common stock outstanding calculation (in thousands):

	September 30,	
	2020	2019
Stock options	2,594	2,434
Non-vested performance restricted stock units	500	-
Non-vested restricted stock units	1,850	240
Common stock warrants	105	105

**15. SHARE-BASED COMPENSATION**

The amount of share-based compensation expense recognized by the Company by location in its statements of operations for the three and nine months ended September 30, 2020 and 2019 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	\$ 17	\$ 18	\$ 48	\$ 47
Sales and marketing	370	368	1,036	976
General and administrative	572	429	1,440	1,126
Research and development	87	119	364	309
Total	<u>\$ 1,046</u>	<u>\$ 934</u>	<u>\$ 2,888</u>	<u>\$ 2,458</u>

**2018 Equity Incentive Plan**

In June 2018, the Company adopted the 2018 Equity Incentive Plan, or 2018 Plan, which authorized the issuance of up to 1.4 million shares, subject to an annual 4% increase based on the number of shares of common stock outstanding, in the form of restricted stock, stock appreciation rights and stock options to the Company's directors, employees and consultants. The amount and terms of grants are determined by the Company's board of directors. All stock options granted to date have had exercise prices equal to the fair value, as determined by the closing price as reported by the Nasdaq Global Market, of the underlying common stock on the date of grant. The contractual term of stock options is up to 10 years, and stock options are exercisable in cash or as otherwise determined by the board of directors. Generally, stock options vest 25% upon the first anniversary of the date of grant and the remainder ratably monthly thereafter for 36 months. Restricted stock awards and restricted stock units generally vest ratably in three equal installments on the first, second and third anniversaries of the grant date. As of September 30, 2020, there were 1.4 million shares available for future issuance under the 2018 Plan.



## Notes to Interim Financial Statements

(Unaudited)

**Stock Options**

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2020:

	Number of Shares under Option (in thousands)	Weighted-average Exercise Price per Option	Weighted-average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2019	2,415	\$ 7.11		
Granted	1,029	\$ 2.01		
Exercised	(230)	\$ 2.32		
Forfeited	(620)	\$ 10.74		
Outstanding at September 30, 2020	2,594	\$ 4.64	7.0	\$ 5,535
Exercisable at September 30, 2020	1,850	\$ 4.79	4.1	\$ 2,495
Vested and expected to vest at September 30, 2020	2,594	\$ 4.64	7.0	\$ 5,535

The Company recognized share-based compensation expense related to stock options of \$0.3 million and \$0.6 million for the three months ended September 30, 2020 and 2019, respectively and \$1.2 million and \$1.6 million for the nine months ended September 30, 2020 and 2019. As of September 30, 2020, there was \$3.3 million of total unrecognized compensation cost related to non-vested stock options which the Company expects to recognize over a weighted-average period of 2.8 years. The weighted-average grant-date fair value of stock options granted during the nine months ended September 30, 2020 was estimated at \$1.02 per option. The total intrinsic value of stock options exercised during the nine months ended September 30, 2020 was \$0.4 million.

For the nine months ended September 30, 2020, the grant-date fair value of stock options was estimated at the time of grant using the following weighted-average inputs and assumptions in the Black-Scholes option pricing model:

Estimated fair value of common stock	\$ 2.01
Exercise price	\$ 2.01
Expected term (in years)	6.1
Risk-free interest rate	0.38%
Expected volatility	55.3%
Dividend yield	0%

**Restricted Stock Awards and Restricted Stock Units**

The following table summarizes the Company's restricted stock award and restricted stock unit activity for the nine months ended September 30, 2020:

	Non-vested Restricted Stock Units (in thousands)	Weighted-average Grant-date Fair Value
Non-vested at December 31, 2019	245	\$ 15.23
Granted	2,155	\$ 3.05
Vested	(87)	\$ 14.13
Forfeited	(463)	\$ 5.22
Non-vested at September 30, 2020	1,850	\$ 3.60

The Company recognized \$0.6 million and \$0.3 million in share-based compensation expense related to restricted stock awards and restricted stock units for the three months ended September 30, 2020 and 2019, respectively and \$1.7 million and \$0.9 million for the nine months ended September 30, 2020 and 2019. As of September 30, 2020, there was \$6.1 million of unrecognized compensation cost related to non-vested restricted stock awards and restricted stock units, which the Company expects to recognize over a weighted-average period of 2.6 years. The total fair value at the vesting date of restricted stock awards and restricted stock units vested during the nine months ended September 30, 2020 was \$0.2 million.

## Notes to Interim Financial Statements

(Unaudited)

In July 2020, the Company awarded 500,000 of performance restricted stock units (“PRSUs”) to the Company’s chief executive officer in connection with the commencement of his employment. The grant was comprised of four equal tranches each of which vest in equal installments of 125,000 shares based on appreciation of the Company’s common stock price to \$10, \$15, \$20 and \$25 per share, respectively, measured using a trailing 30-day volume weighted average price of a share of the Company’s common stock. The fair value of the PRSUs was determined based upon a risk neutral Monte Carlo simulation valuation model. The Company’s assumptions for expected volatility, closing price and risk-free rate were 87.4%, \$1.98 and 0.63%, respectively. The aggregate estimated fair value of the PRSUs was \$0.9 million, which is expected to be recognized over a weighted-average period of 3.9 years. The Company recognized less than \$0.1 million in share-based expense related to the PRSU award for the three and nine months ended September 30, 2020. As of September 30, 2020, there was \$0.8 million of unrecognized compensation costs which the Company plans to recognize over the initial estimated vesting period of 3.7 years.

## 16. COMMITMENTS AND CONTINGENCIES

## Legal Matters

The Company is subject from time to time to various claims and legal actions arising during the ordinary course of its business. Management believes that there are currently no claims or legal actions that would reasonably be expected to have a material adverse effect on the Company’s results of operations, financial condition, or cash flows.

## 17. GEOGRAPHICAL SEGMENT INFORMATION

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company currently operates in one business segment as it is managed and operated as one business. A single management team that reports to the chief operating decision maker comprehensively manages the entire business. The Company does not operate any material separate lines of business or separate business entities with respect to its products or product development.

The following geographic data includes revenue generated from the Company’s third-party distributors. The Company’s revenue was generated in the following geographic regions and by product line for the periods indicated (in thousands):

	Revenues by Geography Three Months Ended September 30,			
	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
United States	\$ 12,029	97%	\$ 15,294	96%
International	419	3%	706	4%
Total revenues	\$ 12,448	100%	\$ 16,000	100%

	U.S. Revenues by Product Category Three Months Ended September 30,			
	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ 2,541	21%	\$ 4,616	30%
Treatment sessions	9,083	76%	10,252	67%
Other	405	3%	426	3%
Total U.S. revenues	\$ 12,029	100%	\$ 15,294	100%

	International Revenues by Product Category Three Months Ended September 30,			
	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ 222	53%	\$ 465	66%
Treatment sessions	99	24%	114	16%
Other	98	23%	127	18%
Total International revenues	\$ 419	100%	\$ 706	100%

## Notes to Interim Financial Statements

(Unaudited)

Revenues by Geography  
Nine Months Ended September 30,

	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
United States	\$ 32,473	96%	\$ 43,730	97%
International	1,192	4%	1,570	3%
Total revenues	\$ 33,665	100%	\$ 45,300	100%

U.S. Revenues by Product Category  
Nine Months Ended September 30,

	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
(in thousands, except percentages)				
NeuroStar Advanced Therapy System	\$ 7,474	23%	\$ 12,594	29%
Treatment sessions	23,823	73%	29,877	68%
Other	1,176	4%	1,259	3%
Total U.S. revenues	\$ 32,473	100%	\$ 43,730	100%

International Revenues by Product Category  
Nine Months Ended September 30,

	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
(in thousands, except percentages)				
NeuroStar Advanced Therapy System	\$ 632	53%	\$ 1,002	64%
Treatment sessions	291	24%	247	16%
Other	269	23%	321	20%
Total International revenues	\$ 1,192	100%	\$ 1,570	100%

**18. SEVERANCE**

On April 8, 2020, the Company took action to reduce expenses through a reduction in force (“RIF”). As part of this action the Company terminated 95 employees who received separation benefits upon their termination. During the second quarter of 2020, the Company recorded a separation-related charge for the RIF equal to the fair value of the terminated employees benefits as of the communication date in the amount of \$2.1 million. This amount was paid out during the quarter with the final payoff occurring on June 15, 2020.

The Company entered into transition agreements outlining the separation with its former chief executive officer in March 2020 and the vice president of medical operations in September 2020. In connection with these agreements the company recorded \$0.2 million and \$1.3 million of charges in salary, payroll tax and bonus expenses in the three and nine months ended September 30, 2020, respectively. For the nine months ended September 30, 2020, \$0.5 million of termination benefits were paid associated with the termination of the employees and charged against this liability. There were no other changes to the liability. As of September 30, 2020, \$0.8 million remain in accrued liabilities for the unpaid portion of the separation benefits.

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

*The following discussion and analysis of our financial condition and results of operations, as well as other sections in this Quarterly Report on Form 10-Q, should be read in conjunction with our unaudited interim financial statements and related notes thereto included elsewhere herein. In addition to historical financial information, some of the information contained in the following discussion and analysis contains 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. All statements other than statements of historical facts, including statements regarding our future results of operations and financial position, business strategy, current and prospective products, product approvals, research and development costs, current and prospective collaborations, timing and likelihood of success, plans and objectives of management for future operations and future results of current and anticipated products, are forward-looking statements. These statements involve known and unknown risks, uncertainties, assumptions and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, without limitation, risks and uncertainties related to: the impact of the novel coronavirus, or COVID-19, pandemic on general political and economic conditions, including as a result of efforts by governmental authorities to mitigate the COVID-19 pandemic, such as travel bans, shelter in place orders and third-party business closures and the related impact on resource allocations, manufacturing and supply chains and patient access to commercial products; our ability to execute our business continuity as well as our operational and budget plans in light of the COVID-19 pandemic; our ability to achieve or sustain profitable operations due to our history of losses; our reliance on the sale and usage of our NeuroStar Advanced Therapy System to generate revenues; the scale and efficacy of our salesforce; availability of coverage and reimbursement from third-party payors for treatments using our products; physician and patient demand for treatments using our products; developments in respect of competing technologies and therapies for the indications that our products treat; product defects; our ability to obtain and maintain intellectual property protection for our technology; developments in clinical trials or regulatory review of NeuroStar Advanced Therapy System for additional indications; and developments in regulation in the United States and other applicable jurisdictions. For a discussion of these and other related risks, please refer to our recent SEC filings which are available on the SEC’s website at [www.sec.gov](http://www.sec.gov). These forward-looking statements are based on our expectations and assumptions as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no duty or obligation to update any forward-looking statements contained in this Quarterly Report on Form 10-Q as a result of new information, future events or changes in our expectations.*

*In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions described in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K filed with the SEC, on March 3, 2020. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for us to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.*

## Overview

We are a commercial stage medical technology company focused on designing, developing and marketing products that improve the quality of life for patients who suffer from psychiatric disorders. Our first commercial product, the NeuroStar® Advanced Therapy System, is a non-invasive and non-systemic office-based treatment that uses transcranial magnetic stimulation, or TMS, to create a pulsed, MRI-strength magnetic field that induces electrical currents designed to stimulate specific areas of the brain associated with mood. The system is cleared by the United States Food and Drug Administration, or FDA, to treat adult patients with major depressive disorder, or MDD, that have failed to achieve satisfactory improvement from prior antidepressant medication in the current MDD episode. NeuroStar Advanced Therapy is also available in other parts of the world, including Japan, where it is listed under Japan's national health insurance. NeuroStar Advanced Therapy is safe, clinically effective, reproducible and precise and we believe is supported by the largest clinical data set of any competing TMS system. We are a market leader in TMS therapy based on our U.S. installed base of 1,143 active NeuroStar Advanced Therapy Systems in approximately 909 psychiatrist offices as of September 30, 2020 and the estimated 94,609 patients treated with approximately 3.4 million of our treatment sessions through such date. We generated revenues of \$12.4 million and \$33.7 million for the three and nine months ended September 30, 2020.

We designed the NeuroStar Advanced Therapy System as a non-invasive therapeutic alternative to treat patients who suffer from MDD and to address many of the key limitations of other treatment options. We generate revenues from initial capital sales of our systems, recurring Treatment Sessions and service and repair and extended warranty contracts. We derive the majority of our revenues from recurring Treatment Sessions. For the three months ended September 30, 2020, revenues from sales of our Treatment Sessions and NeuroStar Advanced Therapy Systems represented 76% and 21% of our U.S. revenues, respectively. For the nine months ended September 30, 2020, revenues from sales of our Treatment Sessions and NeuroStar Advanced Therapy Systems represented 73% and 23% of our U.S. revenues, respectively.

We currently sell our NeuroStar Advanced Therapy System and recurring Treatment Sessions in the United States with the collaborative support of our 122 employees as of September 30, 2020. Our sales force targets an estimated 50,000 psychiatrists across 26,000 psychiatric practices in the United States. Some of our customers have and may purchase more than one NeuroStar Advanced Therapy System. Based on our commercial data, on average, we believe our customers can recoup their initial capital investment in our system by providing a standard course of treatment to approximately 12 patients. We believe psychiatrists can generate approximately \$7,500 to \$10,000 of revenue per patient for a standard course of treatment, which may provide meaningful incremental income to their practices. We have a diverse customer base of psychiatrists in group psychiatric practices in the United States. For the three and nine months ended September 30, 2020, one customer accounted for more than 10% of our revenues.

We market our products in a few select markets outside the United States through independent distributors. International revenues represented 3% and 4% of our total revenues for the nine months ended September 30, 2020 and 2019, respectively. In October 2017, we entered into an exclusive distribution agreement with Teijin Pharma Limited, or Teijin, for the distribution of our NeuroStar Advanced Therapy Systems and Treatment Sessions to customers who will treat patients with MDD in Japan. We received regulatory approval for our system in Japan in September 2017, and we received the initial reimbursement of JPY 12,000 per Treatment Session, which went into effect on June 1, 2019. We expect our international revenues to increase over time as a percentage of our total revenues as we grow system placements and utilization in Japan.

Our research and development efforts are focused on the following: hardware and software product developments and enhancements of our NeuroStar Advanced Therapy System and clinical development relating to expansion of our label and additional indications, which may include bipolar depression and post-traumatic stress disorder. We outsource the manufacture of components of our NeuroStar Advanced Therapy Systems that are produced to our specifications, and individual components are either shipped directly from our third-party contract manufacturers to our customers or consolidated into pallets at our Malvern, Pennsylvania facility prior to shipment. Final installation of these systems occurs at the customer site.

Our total revenues decreased by \$3.6 million, or 22%, from \$16.0 million for the three months ended September 30, 2019 to \$12.4 million for the three months ended September 30, 2020 and by \$11.6 million, or 26%, from \$45.3 million for nine months ended September 30, 2019 to \$33.7 million for the nine months ended September 30, 2020. For the three and nine months ended September 30, 2020, our U.S. revenues were \$12.0 million and \$32.5 million compared to \$15.3 million and \$43.7 million for the three and nine months ended September 30, 2019, which represents a decrease of 21% and 26% period over period. We believe the decline was primarily attributable to the impact of the COVID-19 pandemic and related governmental responses. We incurred net losses of \$3.4 million and \$23.8 million for the three and nine months ended September 30, 2020 compared to net losses of \$6.9 million and \$21.5 million for the three and nine months ended September 30, 2019. We expect to continue to incur losses for the next several years as we invest in our commercial organization to support our planned sales growth and while continuing to invest in our pipeline indications. As of September 30, 2020, we had an accumulated deficit of \$273.9 million.

## **COVID-19**

We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business and geographies, including how it has and will continue to impact the Company's customers, supply chain, employees and other business partners. While we began to experience significant disruptions in March 2020 through the end of September 2020 from the COVID-19 pandemic, we are unable to predict the impact that the COVID-19 pandemic may have on our financial condition, results of operations and cash flows due to numerous uncertainties. These uncertainties include the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact and the direct and indirect economic effects of the pandemic and containment measures, among others. The outbreak of COVID-19 in many countries, including the United States, has significantly adversely impacted global economic activity and has contributed to significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and, as cases of COVID-19 have continued to be identified in additional countries, many countries, including the United States, have reacted by instituting quarantines, mandating business and school closures and restricting travel. Certain states and cities, including where our principal place of business is located, have also reacted by instituting quarantines, restrictions on travel, "shelter in place" rules, restrictions on types of business that may continue to operate, and/or restrictions on the types of construction projects that may continue. The Company cannot predict if additional states and cities will implement similar restrictions or when restrictions currently in place will expire. As a result, the COVID-19 pandemic is negatively impacting almost every industry directly or indirectly, including industries in which the Company operates. Further, the impacts of a potential worsening of global economic conditions and the continued disruptions to, and volatility in, the credit and financial markets, consumer spending as well as other unanticipated consequences remain unknown.

On April 8, 2020, the Company adopted a plan to reduce operating expenses in connection with the COVID-19 pandemic and the resulting economic downturn (the "Plan"). The Plan included a reduction in force across all functions within the Company (the "RIF"). The Company paid and recorded separation-related charges for the RIF equal to \$2.1 million. The Company estimates that the Plan will produce net savings of approximately \$18 million through December 31, 2020. Following the second quarter RIF, the Company's workforce totaled 122 employees as of September 30, 2020.

The situation surrounding the COVID-19 pandemic remains fluid, and we are actively managing our response in collaboration with business partners and assessing potential impacts to our financial position and operating results, as well as potential adverse developments in our business. For further information regarding the impact of COVID-19 on the Company, see Part II, Item 1A titled "Risk Factors" of our Quarterly Report on Form 10-Q for the period ended March 31, 2020.

### **Components of Our Results of Operations**

#### *Revenues*

To date, we have generated revenues primarily from the capital portion of our business and related sales and rentals of the NeuroStar Advanced Therapy System and the recurring revenues from our sale of treatment sessions in the United States.

**NeuroStar Advanced Therapy System Revenues.** NeuroStar Advanced Therapy System revenues consist primarily of sales or rentals of a capital component, including upgrades to the equipment attributable to the initial sale of the system. NeuroStar Advanced Therapy Systems can be purchased outright or on a rent-to-own basis by certain customers. We had an installed base of 1,143 and 1,032 active NeuroStar Advanced Therapy Systems as of September 30, 2020 and 2019, respectively.

**Treatment Session Revenues.** Treatment session revenues primarily include sales of NeuroStar Treatment Sessions and SenStar treatment links. The NeuroStar Treatment Sessions are access codes that are delivered electronically in the United States. The SenStar treatment links are disposable units containing single-use access codes that are sold and used outside the United States. Access codes are purchased separately by our customers, primarily on an as-needed basis, and are required by the NeuroStar Advanced Therapy System in order to deliver treatment sessions.

**Other Revenues.** Other revenues are derived primarily from service and repair and extended warranty contracts with our existing customers.

We refer you to the section titled "Critical Accounting Policies and Use of Estimates—Revenue Recognition" appearing in our Form 10-K filed with the SEC on March 3, 2020. We also refer you to "Note 3. Summary of Significant Accounting Policies."

### *Cost of Revenues and Gross Margin*

Cost of revenues primarily consists of the costs of components and products purchased from our third-party contract manufacturers of our NeuroStar Advanced Therapy Systems as well as the cost of treatment packs for individual treatment sessions. We use third-party contract manufacturing partners to produce the components for and assemble the completed NeuroStar Advanced Therapy Systems. Cost of revenues also includes costs related to personnel, royalties, warranty, shipping, and our operations and field service departments. We expect our cost of revenues to increase in absolute dollars as and to the extent our revenues grow.

Our gross profit is calculated by subtracting our cost of revenues from our revenues. We calculate our gross margin as our gross profit divided by our revenues. Our gross margin has been and will continue to be affected by a variety of factors, primarily product sales mix, pricing and third-party contract manufacturing costs. Our gross margins on revenues from sales of NeuroStar Advanced Therapy Systems are lower than our gross margins on revenues from sales of treatment sessions and, as a result, the sales mix between NeuroStar Advanced Therapy Systems and treatment sessions can affect the gross margin in any reporting period.

### *Sales and Marketing Expenses*

Sales and marketing expenses consist of market research and commercial activities related to the sale of our NeuroStar Advanced Therapy Systems and treatment sessions and salaries and related benefits, sales commissions and share-based compensation for employees focused on these efforts. Other significant sales and marketing costs included conferences and trade shows, promotional and marketing activities, including direct and online marketing, practice support programs, television and radio media campaigns, travel and training expenses.

### *General and Administrative Expenses*

General and administrative expenses consist primarily of personnel expenses, including salaries and related benefits, share-based compensation and travel expenses, for employees in executive, finance, information technology, legal and human resource functions. General and administrative expenses also include the cost of insurance, outside legal fees, accounting and other consulting services, audit fees from our independent registered public accounting firm, board of directors' fees and other administrative costs, such as corporate facility costs, including rent, utilities, depreciation and maintenance not otherwise included in cost of revenues.

We anticipate that our general and administrative expenses will decrease in absolute dollars because of the actions taken by the company in response to the COVID-19 pandemic and the company's reduction in force announced in April 2020.

### *Research and Development Expenses*

Research and development expenses consist primarily of personnel expenses, including salaries and related benefits and share-based compensation for employees in clinical development, product development, regulatory and quality assurance functions, as well as expenses associated with outsourced professional scientific development services and costs of investigative sites and consultants that conduct our preclinical and clinical development programs. We typically use our employee, consultant and infrastructure resources across our research and development programs.

We plan to incur research and development expenses for the near future as we expect to continue our development of TMS Therapy for the treatment of additional patient populations and new indications, as well as for various hardware and software development projects.

### *Interest Expense*

Interest expense consists of cash interest payable under our credit facility and non-cash interest attributable to the accrual of final payment fees and the amortization of deferred financing costs related to our indebtedness.

### *Other Expense (Income), Net*

Other expense (income), net consists primarily of interest income earned on our money market account balances, and non-utilization fees paid to Oxford related to our decision not to borrow the Term C Loan.

## Results of Operations

Comparison of the Three Months ended September 30, 2020 and 2019

	Three Months Ended September 30,		Increase / (Decrease)	
	2020	2019	Dollars	Percentage
	(in thousands, except percentages)			
Revenues	\$ 12,448	\$ 16,000	\$ (3,552)	-22%
Cost of revenues	2,657	4,192	(1,535)	-37%
Gross Profit	9,791	11,808	(2,017)	-17%
Gross Margin	78.7%	73.8%		
Operating expenses:				
Sales and marketing	6,053	10,362	(4,309)	-42%
General and administrative	4,210	4,285	(75)	-2%
Research and development	1,952	3,489	(1,537)	-44%
Total operating expenses	12,215	18,136	(5,921)	-33%
Loss from Operations	(2,424)	(6,328)	3,904	62%
Other (income) expense:				
Interest expense	1,002	930	72	8%
Other expense (income), net	(8)	(391)	383	-98%
Net Loss	\$ (3,418)	\$ (6,867)	\$ 3,449	50%

	Revenues by Geography Three Months Ended September 30,			
	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
United States	\$ 12,029	97%	\$ 15,294	96%
International	419	3%	706	4%
Total revenues	\$ 12,448	100%	\$ 16,000	100%

	U.S. Revenues by Product Category Three Months Ended September 30,			
	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ 2,541	21%	\$ 4,616	30%
Treatment sessions	9,083	76%	10,252	67%
Other	405	3%	426	3%
Total U.S. revenues	\$ 12,029	100%	\$ 15,294	100%

	United States NeuroStar Advanced Therapy System Revenues by Type Three Months Ended September 30,			
	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
NeuroStar Capital	\$ 2,438	96%	\$ 4,264	92%
Operating lease	88	3%	185	4%
Other	15	1%	167	4%
Total United States NeuroStar Advanced Therapy System revenues	\$ 2,541	100%	\$ 4,616	100%



### *Revenues*

Total revenues decreased by \$3.6 million, or 22%, from \$16.0 million for the three months ended September 30, 2019 to \$12.4 million for the three months ended September 30, 2020. The decrease was driven by a 21% and 41% reduction in U.S. and International revenue, respectively, which we believe was caused by the impact of the COVID-19 pandemic.

NeuroStar Advanced Therapy System revenues represented 21% and 30% of U.S. revenues for the three months ended September 30, 2020 and 2019, respectively. U.S. NeuroStar Advanced Therapy System revenue for the three months ended September 30, 2020 was \$2.5 million, a decrease of 45% versus third quarter 2019 revenue of \$4.6 million. The decrease was primarily driven by lower NeuroStar Capital System sales during the quarter, as well as lower other revenue related to fewer HP Coil upgrades sold in the third quarter of 2020. In the quarter, the Company sold 39 systems, versus 68 in the prior year quarter.

Treatment Session revenues in the United States represented 76% and 67% of total revenues in the United States for the three months ended September 30, 2020 and 2019, respectively, and decreased by 11% from \$10.3 million for the three months ended September 30, 2019 to \$9.1 million for the three months ended September 30, 2020. The decrease was primarily driven by a decline in volume which we believe was caused by the impact of the COVID-19 pandemic.

### *Cost of Revenues and Gross Margin*

Cost of revenues decreased by \$1.5 million or 36% from \$4.2 million for the three months ended September 30, 2019 to \$2.7 million for the three months ended September 30, 2020 when compared to the three months ended September 30, 2019 Gross margin increased from 73.8% for the three months ended September 30, 2019 to 78.7% for the three months ended September 30, 2020. The increase was primarily a result of a change in the product mix of revenues versus the prior year as well as reduced personnel supporting our installation efforts.

### *Sales and Marketing Expenses*

Sales and marketing expenses decreased by \$4.3 million, or 42%, from \$10.4 million for the three months ended September 30, 2019 to \$6.1 million for the three months ended September 30, 2020. The decrease was primarily due to reduced marketing expenses, including trade shows and advertising, travel expenses and personnel costs.

### *General and Administrative Expenses*

General and administrative expenses decreased by \$0.1 million, or 2%, from \$4.3 million for the three months ended September 30, 2019 to \$4.2 million for the three months ended September 30, 2020. The net decrease was due in part to a decrease of \$0.3 million in personnel expenses related to bonus and salary and a \$0.1 million decrease in legal expenses, which was partially offset by a \$0.3 million increase in insurance expense.

### *Research and Development Expenses*

Research and development expenses decreased \$1.5 million, or 44%, from \$3.5 million for the three months ended September 30, 2019 to \$2.0 million for the three months ended September 30, 2020. The decrease was primarily due to reduced product development, personnel and travel expenses.

### *Interest Expense*

Interest expense increased \$0.1 million, or 8% from \$0.9 million for the three months ended September 30, 2019 to \$1.0 million for the three months ended September 30, 2020. The increase in interest expense is due to greater debt during the three months ended September 30, 2020 versus three months ended September 30, 2019.

### *Other Expense (Income), Net*

Other expense (income), net decreased by \$0.4 million, from \$0.4 million for the three months ended September 30, 2019 to \$0.0 million for the three months ended September 30, 2020, primarily as a result of decreased interest income earned on the Company's money market accounts.

Comparison of the Nine Months ended September 30, 2020 and 2019

	Nine Months Ended September 30,		Increase / (Decrease)	
	2020	2019	Dollars	Percentage
	(in thousands, except percentages)			
Revenues	\$ 33,665	\$ 45,300	\$ (11,635)	-26%
Cost of revenues	7,791	11,170	(3,379)	-30%
Gross Profit	25,874	34,130	(8,256)	-24%
Gross Margin	76.9%	75.3%		
Operating expenses:				
Sales and marketing	24,926	31,477	(6,551)	-21%
General and administrative	13,508	13,145	363	3%
Research and development	7,089	9,499	(2,410)	-25%
Total operating expenses	45,523	54,121	(8,598)	-16%
Loss from Operations	(19,649)	(19,991)	342	2%
Other (income) expense:				
Interest expense	3,511	2,780	731	26%
Loss on extinguishment of debt	924	-	924	100%
Other expense (income), net	(288)	(1,281)	993	-78%
Net Loss	\$ (23,796)	\$ (21,490)	\$ (2,306)	-11%

	Revenues by Geography Nine Months Ended September 30,			
	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
United States	\$ 32,473	96%	\$ 43,730	97%
International	1,192	4%	1,570	3%
Total revenues	\$ 33,665	100%	\$ 45,300	100%

	U.S. Revenues by Product Category Nine Months Ended September 30,			
	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ 7,474	23%	\$ 12,594	29%
Treatment sessions	23,823	73%	29,877	68%
Other	1,176	4%	1,259	3%
Total U.S. revenues	\$ 32,473	100%	\$ 43,730	100%

	United States NeuroStar Advanced Therapy System Revenues by Type Nine Months Ended September 30,			
	2020		2019	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
NeuroStar Capital	\$ 7,072	95%	\$ 11,237	89%
Operating lease	358	5%	554	4%
Other	44	1%	803	6%
Total United States NeuroStar Advanced Therapy System revenues	\$ 7,474	100%	\$ 12,594	100%

Revenues

Total revenues decreased by \$11.6 million or 26%, from \$45.3 million for the nine months ended September 30, 2019 to \$33.7 million for the nine months ended September 30, 2020. The decrease was driven by a 26% and 24% reduction in U.S. and International revenue, respectively, which we believe was caused by the impact of the COVID-19 pandemic.

NeuroStar Advanced Therapy System revenues represented 23% and 29% of U.S. revenues for the nine months ended September 30, 2020 and 2019 respectively. U.S. NeuroStar Advanced Therapy System revenue for the nine months ended September 30, 2020, was \$7.5 million, a decrease of \$5.1 million or 41% versus revenue of \$12.6 million for the nine months ended September 30, 2019. The decrease was primarily driven by lower NeuroStar Capital System sales during the year, as well as lower other revenue related to fewer HP Coil upgrades sold in 2020. For the nine months ended September 30, 2020 and 2019, the Company sold 112 and 172 systems, respectively, during each period.

As of September 30, 2020, we had an installed base of 1,143 active Systems in the United States. This represents an increase of 111 units, or 11%, over the active installed base as of September 30, 2019.

Treatment Session revenues in the United States represented 73% and 68% of total revenues in the United States for the nine months ended September 30, 2020 and 2019, respectively. Treatment Sessions revenues decreased by 20% from \$29.9 million for the nine months ended September 30, 2019 to \$23.8 million for the nine months ended September 30, 2020. The decrease was primarily driven by a decline in volume which we believe was caused by the impact of the COVID-19 pandemic.

#### *Cost of Revenues and Gross Margin*

Cost of revenues decreased by \$3.4 million or 30% from \$11.2 million for the nine months ended September 30, 2019 to \$7.8 million for the nine months ended September 30, 2020. Gross margin increased from 75.3% for the nine months ended September 30, 2019 to 76.9% for the nine months ended September 30, 2020. The increase was primarily a result of a change in the product mix of revenues versus the prior year as well as reduced personnel supporting our installation efforts.

#### *Sales and Marketing Expenses*

Sales and marketing expenses decreased by \$6.6 million, or 21%, from \$31.5 million for the nine months ended September 30, 2019 to \$24.9 million for the nine months ended September 30, 2020. The decrease was primarily due to reduced marketing expenses, including trade shows and advertising, travel expenses and personnel costs.

#### *General and Administrative Expenses*

General and administrative expenses increased by \$0.4 million, or 3%, from \$13.1 million for the nine months ended September 30, 2019 to \$13.5 million for the nine months ended September 30, 2020. The net increase was due in part to an increase in severance costs of \$0.8 million in connection with our reduction in force actions for the nine months ended September 30, 2020, a reduction in legal and patent expense of \$0.3 million and a drop in travel expense of \$0.1 million due to restrictions around COVID-19.

#### *Research and Development Expenses*

Research and development expenses decreased \$2.4 million, or 25%, from \$9.5 million for the nine months ended September 30, 2019 to \$7.1 million for the nine months ended September 30, 2020. The decrease was primarily due to reduced product development, personnel and travel expenses.

#### *Interest Expense*

Interest expense increased \$0.7 million, or 26% from \$2.8 million for the nine months ended September 30, 2019 to \$3.5 million for the nine months ended September 30, 2020. The increase in interest expense is due to greater debt during the nine months ended September 30, 2020 versus nine months ended September 30, 2019.

#### *Other Expense (Income), Net*

Other expense (income), net decreased by \$1.0 million, from \$1.2 million for the nine months ended September 30, 2019 to \$0.02 million for the nine months ended September 30, 2020, primarily as a result of decreased interest income earned on the Company's money market accounts.

### **Liquidity and Capital Resources**

#### *Overview*

On July 2, 2018, we closed our IPO, in which we issued and sold 6.325 million shares of our common stock, which included shares sold pursuant to an option granted to the underwriters to purchase additional shares, at a public offering price of \$17.00 per share. We received net proceeds of \$96.5 million after deducting underwriting discounts, commissions, and other offering expenses paid by us. Our common stock is listed on the Nasdaq Global Market under the trading symbol "STIM."

As of September 30, 2020, we had cash and cash equivalents of \$50.7 million and an accumulated deficit of \$273.9 million, compared to cash and cash equivalents of \$75.7 million and an accumulated deficit of \$250.1 million as of December 31, 2019. We incurred negative cash flows from operating activities of \$26.7 million and \$24.1 million for the nine months ended September 30, 2020 and 2019, respectively. We have incurred operating losses since our inception, and we anticipate that our operating losses will continue in the near term as we seek to expand our sales and marketing initiatives to support our growth in existing and new markets, invest funds in additional research and development activities and utilize cash for other corporate purposes. Our primary sources of capital to date have been from our IPO, private placements of our convertible preferred securities, borrowings under our credit facilities and sales of our products. As of September 30, 2020, the Company had \$35.0 million of borrowings outstanding under its credit facility, which has a final maturity in February 2025. As discussed in Note 12, the outstanding balance under the credit facility is classified as a current liability as of September 30, 2020. Management believes that the Company's cash and cash equivalents and anticipated revenues from sales of its products are sufficient to fund the Company's operations (including the potential repayment of the credit facility if a waiver or amendment is not obtained) for at least 12 months from the issuance of these financial statements.

We cannot predict our revenues and expenses in the short term as a result of the COVID-19 pandemic and related governmental responses. We also incur additional costs as a public company. Based on our current business plan, we believe that our cash and cash equivalents and anticipated revenues from sales of our products will be sufficient to meet our cash requirements through November 2, 2021. However, if these sources are insufficient to satisfy our liquidity requirements, we may seek to sell additional common or preferred equity or debt securities or enter into a new credit facility or another form of third-party funding or seek other debt financing. If we raise additional funds by issuing equity or equity-linked securities, our stockholders would experience dilution and any new equity securities could have rights, preferences and privileges superior to those of holders of our common stock. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. We cannot be assured that additional equity, equity-linked or debt financing will be available on terms favorable to us or our stockholders, or at all. It is also possible that we may allocate significant amounts of capital towards products or technologies for which market demand is lower than expected and, as a result, abandon such efforts. If we are unable to maintain our current financing or obtain adequate additional financing when we require it, or if we obtain financing on terms which are not favorable to us, or if we expend capital on products or technologies that are unsuccessful, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, or we may be required to delay the development, commercialization and marketing of our products.

Our current and future funding requirements will depend on many factors, including:

- the impact of COVID-19 and related governmental responses;
- our ability to achieve revenue growth and improve operating margins;
- compliance with the terms and conditions, including covenants, set forth in our credit facility;
- the cost of expanding our operations and offerings, including our sales and marketing efforts;
- our ability to improve or maintain coverage and reimbursement arrangements with domestic third-party and government payors, particularly in Japan;
- our rate of progress in establishing coverage and reimbursement arrangements from international commercial third-party and government payors;
- our rate of progress in, and cost of the sales and marketing activities associated with, establishing adoption of our products and maintaining or improving our sales to our current customers;
- the cost of research and development activities, including research and development relating to additional indications, which may include bipolar depression;
- the effect of competing technological and market developments;
- costs related to international expansion; and
- the potential cost of and delays in product development as a result of any regulatory oversight applicable to our products.

#### Cash Flows

The following table sets forth a summary of our cash flows for the nine months ended September 30, 2020 and 2019

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
	(in thousands)	
Net Cash Used in Operating Activities	\$ (26,687)	\$ (24,079)
Net Cash Used in Investing Activities	(615)	(454)
Net Cash Provided by Financing Activities	2,313	2,320
Net Decrease in Cash and Cash Equivalents	<u>\$ (24,989)</u>	<u>\$ (22,213)</u>

### *Net Cash Used in Operating Activities*

Net cash used in operating activities for the nine months ended September 30, 2020 was \$26.7 million, consisting primarily of a net loss of \$23.8 million and a decrease in net operating liabilities of \$8.4 million, partially offset by non-cash charges of \$5.5 million. The decrease in net operating liabilities was primarily due to decreases in accounts payable and accrued expenses as a result of timing and the 2020 payments of 2019 incentive compensation and commissions accrued as of December 31, 2019. Non-cash charges consisted of loss on debt extinguishment, depreciation and amortization, non-cash interest expense, share-based compensation, and the cost of rental units purchased by customers.

Net cash used in operating activities for the nine months ended September 30, 2019 was \$24.1 million, consisting primarily of a net loss of \$21.5 million and a decrease in net operating liabilities of \$6.5 million, partially offset by non-cash charges of \$3.9 million. Non-cash charges consisted of depreciation and amortization, non-cash interest expense, share-based compensation and the cost of rental units purchased by customers.

### *Net Cash Used in Investing Activities*

Net cash used in investing activities for the nine months ended September 30, 2020 and the nine months ended September 30, 2019 was \$0.6 million and \$0.5 million, respectively, and was in each case attributable to purchases of property and equipment and capitalized software costs.

### *Net Cash Provided by Financing Activities*

Net cash provided by financing activities for the nine months ended September 30, 2020 was \$2.3 million and consisted of additional proceeds from our loan refinance and cash proceeds related to stock option exercises. Net cash provided by financing activities for the nine months ended September 30, 2019 was \$2.3 million, consisting of cash proceeds related to stock option exercises.

## **Indebtedness**

### **Solar Credit Facility**

On March 2, 2020, the “Company entered into a loan and security agreement with Solar Capital Ltd. (“Solar”), as collateral agent, and other lenders defined in the agreement, for a credit facility (the “Solar Facility”) that replaced the Company’s previous \$35.0 million credit facility with Oxford Finance LLC (“Oxford”, and such facility, the “Oxford Facility”).

The Solar Facility permits the Company to borrow up to an aggregate amount of \$50.0 million in two tranches of term loans, a “Term A Loan” and “Term B Loan.” On March 2, 2020, the Company borrowed an aggregate amount of \$35.0 million, which was the aggregate amount available under the Term A Loan portion of the Solar Facility. The Term A Loan portion of the Solar Facility matures, and all amounts borrowed thereunder are due, on February 28, 2025. Under the Term B Loan portion of the Solar Facility, the Company is permitted to borrow, at its election, up to an aggregate amount of \$15.0 million, (i) upon the Company achieving a specified amount of trailing twelve months net product revenue, and (ii) assuming there has been no event of default under the Solar Facility prior to such election. Once the net product revenue condition has been satisfied, the Company may only make an election to borrow under the Term B Loan portion of the Solar Facility until the earlier of (a) December 15, 2021, (b) 30 days following achievement of the net product revenue condition or (c) the occurrence of an event of default.

Each of the Term A Loan and Term B Loan accrue interest from the date of borrowing through the date of repayment at a floating per annum rate of interest, which resets monthly and is equal to 7.65% plus the greater of (a) 1.66% or (b) the rate per annum rate published by the Intercontinental Exchange Benchmark Administration Ltd. The Term A Loan and the Term B Loan both include an interest-only period through March 1, 2022, after which time the Company will be required to make monthly payments of principal and interest. Monthly principal payments are to be paid in equal amounts on a pro rata basis to lenders. At the Company’s election, the interest only period may be extended through February 2023 if the Company satisfies a minimum net product revenue covenant through March 1, 2022 and no event of default shall have occurred.

In addition to the principal and interest payments due under the Solar Facility, the Company is required to pay a final payment fee to Solar due upon the earlier of prepayment, acceleration or the maturity date of the Term A Loan or Term B Loan portion of the Solar Facility equal to 5.50% of the principal amount of the term loans actually funded. The Company is accruing the final payment fees using the effective interest rate, with a charge to non-cash interest expense, over the term of borrowing. If the Company prepays either the of the Term A Loan or Term B Loan prior to their respective scheduled maturities, the Company will also be required to pay prepayment fees to Solar equal to 3% of the principal amount of such term loan then-prepaid if prepaid on or before the first anniversary of funding, 2% of the principal amount of such term loan then-prepaid if prepaid after the first anniversary and on or before the second anniversary of funding, or 1% of the principal amount of such term loan then-prepaid if prepaid after the second anniversary of funding of the principal amounts borrowed.

The Company is also required to pay Solar an exit fee upon the occurrence, prior to March 2, 2030, of (a) any liquidation, dissolution or winding up of the Company, (b) transaction that results in a person obtaining control over the Company, (c) the Company achieving \$100 million in trailing twelve month net product revenue or (d) the Company achieving \$125 million in trailing twelve month net product revenue. The exit fee for liquidation, dissolution, winding up or change of control of the Company is equal to 4.50% of the principal amount of the term loans actually funded. The exit fee for achieving either \$100 million or \$125 million in trailing twelve-month net product revenue is equal to 2.25% of the principal amount of the term loans actually funded or, if both net product revenue milestones are achieved, 4.50% of the principal amount of the term loans actually funded. The exit fee is capped at 4.50% of the principal amount of the term loans actually funded.

The Company's obligations under the credit facility are secured by a first priority security interest in substantially all of its assets, including its intellectual property. The loan and security agreement requires the Company to comply with certain financial covenants as well as customary affirmative and negative covenants.

The Solar Facility contains events of default, including, without limitation, events of default upon: (i) failure to make payment pursuant to the terms of the agreement; (ii) violation of covenants; (iii) material adverse changes to the Company's business; (iv) attachment or levy on the Company's assets or judicial restraint on its business; (v) insolvency; (vi) material cross-defaults; (vii) significant judgments, orders or decrees for payments by the Company not covered by insurance; (viii) incorrectness of representations and warranties; (ix) incurrence of subordinated debt; (x) a termination or breach of a guaranty; (xi) revocation of governmental approvals necessary for the Company to conduct its business; and (xii) failure by the Company to maintain a valid and perfected lien on the collateral securing the borrowing.

As of September 30, 2020, the Company is in compliance with all covenants in the Solar Facility.

The Solar Facility includes a financial covenant requiring the attainment of a minimum trailing net revenue amount beginning on December 31, 2020. Based upon the Company's projected revenues for the rest of 2020, the Company believes that it is probable that this minimum revenue covenant will not be achieved. The Company is in discussions with the lenders for a potential covenant waiver or amendment, however, no formal agreement has been executed. The Solar Facility also includes subjective acceleration clauses which permit the lenders to accelerate the maturity date under certain circumstances, including, but not limited to, material adverse effects on a Company's financial status or otherwise. In accordance with FASB ASC 470 because the Solar Facility contains subjective acceleration clauses and the assessment that it is probable that the revenue covenant will not be met as of December 31, 2020, the outstanding principal under the Solar Facility is classified as a current liability in the accompanying balance sheet as of September 30, 2020.

#### **Oxford Credit Facility**

Prior to March 2020, the Company had a \$35.0 million credit facility in place with Oxford, which it entered into in March 2017 and that allowed it to borrow up to \$35.0 million in three tranches of term loans: a Term A Loan in the amount of \$25 million, which was drawn immediately upon closing in March 2017, a Term B Loan in the amount of \$5.0 million, which was drawn down in December 2017, and a Term C Loan in the amount of \$5.0 million which was never drawn down. Each term loan accrued interest from the date of borrowing through the date of repayment at a floating per annum rate of interest, which reset monthly and was equal to the greater of (a) 8.15% or (b) the 30 day U.S. LIBOR on the last business day of the month plus 7.38%. This facility featured an interest-only period on all tranches through March 2019.

In addition to principal and interest payments due under the \$35.0 million Oxford credit facility, the Company was required to make final payment fees to Oxford upon the earlier of prepayment or maturity and equal to 8.5% and 7.5% of the principal amounts of the Term A and Term B Loans, respectively. The Company accrued final payment fees using the effective interest rate, with a charge to non-cash interest expense, over the term of borrowing and until its entry into the Solar credit facility in March 2020, at which time the Company paid Oxford \$2.5 million in satisfaction of all final payment fee liabilities due under the Oxford credit facility.

The Company evaluated whether the Solar credit facility entered into in March 2020 represented a debt modification or extinguishment in accordance with ASC 470-50, Debt—Modifications and Extinguishments and determined that the existing debt was extinguished as a result of the full repayment of the existing facility and concurrent issuance of a new credit facility with a new lender. The unamortized balance of the Company's combined debt discount and deferred issuance costs of \$0.6 million related to the Oxford facility were accounted for as a loss on extinguishment of debt.

#### *Cash and Non-Cash Interest Expense*

For the three months ended September 30, 2020, we recognized interest expense of \$1.0 million, of which \$0.8 million was cash and \$0.2 million was non-cash interest expense related to the amortization of deferred financing costs. For the three months ended September 30, 2019, we recognized interest expense of \$0.9 million, of which \$0.7 million was cash and \$0.2 million was non-cash interest expense related to the amortization of deferred financing costs and accrual of final payment fees.

### **Off-Balance Sheet Arrangements**

We do not maintain any off-balance sheet arrangements, partnerships or other relationships with unconsolidated entities, often referred to as structured finance or special-purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### **Commitments and Contractual Obligations**

As of September 30, 2020, there was one significant change to our commitments and future minimum contractual obligations as set forth in our Form 10-K, filed with the SEC on March 3, 2020. We refer you to “Note 12. Debt” in the financial statements included in this Quarterly Report on Form 10-Q for information regarding our new debt agreement.

### **JOBS Act Accounting Election**

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act, and are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, or Securities Act, for complying with new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to avail ourselves of this exemption from complying with new or revised accounting standards and, therefore, will not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. Section 107 of the JOBS Act provides that we can elect to opt out of the extended transition period at any time, which election is irrevocable.

Subject to certain conditions, as an emerging growth company, we may rely on certain of these exemptions, including without limitation (i) providing an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier of (a) the last day of the fiscal year in which we have total annual gross revenue of \$1.07 billion or more; (b) the last day of the fiscal year following the fifth anniversary of the date of the completion of this offering; (c) the date on which we have issued more than \$1.0 billion in nonconvertible debt during the previous six years; or (d) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

### **Recent Accounting Pronouncements**

We refer you to “Note 3. Summary of Significant Accounting Policies” and “Note 4. Recent Accounting Pronouncements” in “Notes to Interim Financial Statements” located in “Part I – FINANCIAL INFORMATION, Item 1. Financial Statements”.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Our cash is held on deposit in demand accounts at a large financial institution in amounts in excess of the Federal Deposit Insurance Corporation, or FDIC, insurance coverage limit of \$250,000 per depositor, per FDIC-insured bank, per ownership category. We have reviewed the financial statements of this institution and believe it has sufficient assets and liquidity to conduct its operations in the ordinary course of business with little or no credit risk to us.

Financial instruments that potentially subject us to concentrations of credit risk principally consist of cash equivalents and accounts receivable. We limit our credit risk associated with cash equivalents by placing investments in highly-rated money market funds. We limit our credit risk with respect to accounts receivable by performing credit evaluations when deemed necessary, but we do not require collateral to secure amounts owed to us by our customers.

As discussed above in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources - Indebtedness” section of this Quarterly Report on Form 10-Q, our credit facility bears interest at 7.65% plus the greater of (a) 1.66% or (b) the rate per annum rate published by the Intercontinental Exchange Benchmark Administration Ltd. As a result, we are exposed to risks from changes in interest rates.

Inflationary factors, such as increases in our cost of revenues and operating expenses, may adversely affect our operating results. Although we do not believe inflation has had a material impact on our financial condition, results of operations or cash flows to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain and increase our gross margin or decrease our operating expenses as a percentage of our revenues if our selling prices of our products do not increase as much or more than our costs increase.

We do not currently have any exposure to foreign currency fluctuations and do not engage in any hedging activities as part of our normal course of business.

### **COVID-19**

During the first, second, and third quarters of 2020, the Company experienced a material impact to revenue, particularly with regards to U.S. treatment session revenues. As noted in the Company’s April 8, 2020 press release, the Company expects that capital equipment sales and treatment session revenues will be materially impacted by this pandemic as customers are deferring capital purchase decisions, and new patient treatment starts and system utilization have declined compared to pre-COVID-19 projections.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or Exchange Act, refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. As required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act, our management, with the participation of our Principal Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Principal Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2020.

#### **Management’s Report on Internal Control Over Financial Reporting**

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Principal Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, 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, and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.



Internal control over financial reporting may not prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are achieved. Further, the design of a control system must be balanced against resource constraints, and therefore the benefits of controls must be considered relative to their costs. Given the inherent limitations in all systems of controls, no evaluation of controls can provide absolute assurance all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions or the degree of compliance with policies or procedures may deteriorate. Accordingly, given the inherent limitations in a cost-effective system of internal control, financial statement misstatements due to error or fraud may occur and may not be detected. Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance of achieving their objectives. We conduct periodic evaluations of our systems of controls to enhance, where necessary, our control policies and procedures.

Management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Principal Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Management has used the framework set forth in the report entitled “Internal Control—Integrated Framework (2013)” published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting. Based on its evaluation, management has concluded that our internal control over financial reporting was effective as of September 30, 2020 at the reasonable assurance level.

#### **Changes in Internal Control over Financial Reporting**

During the quarter ended September 30, 2020, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We are subject from time to time to various claims and legal actions arising during the ordinary course of our business. We believe that there are currently no claims or legal actions that would reasonably be expected to have a material adverse effect on our results of operations, financial condition, or cash flows.

**Item 1A. Risk Factors.**

You should carefully consider the information described in the “Risk Factors” section of the Company’s Annual Report on Form 10-K filed with the SEC on March 3, 2020 and Quarterly Reports on Form 10-Q filed with the SEC on May 5, 2020 and August 4, 2020. There have been no material changes to the risk factors described therein.

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

Recent Issuances of Unregistered Securities

None.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q. Where so indicated, exhibits that were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated.

<b>Exhibit Number</b>	<b>Description</b>
31.1*	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because iXBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (Formatted as Inline XBRL and contained Exhibit 101).

\* Filed herewith.

\*\* This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C Section 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**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.

**NEURONETICS, INC.**

(Registrant)

Date: November 2, 2020

By: /s/ Keith J. Sullivan  
Name: Keith J. Sullivan  
Title: President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 2, 2020

By: /s/ Stephen Furlong  
Name: Stephen Furlong  
Title: VP, Finance and Chief Financial Officer  
(Principal Financial and Accounting Officer)

CERTIFICATION

I, Keith J. Sullivan, certify that:

1. I have reviewed this Annual Report on Form 10-Q of Neuronetics, 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 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 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: November 2, 2020

By: /s/ Keith J. Sullivan  
Name: Keith J. Sullivan  
Title: President and Chief Executive Officer  
(Principal Executive Officer)

CERTIFICATION

I, Stephen Furlong, certify that:

1. I have reviewed this Annual Report on Form 10-Q of Neuronetics, 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 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 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: November 2, 2020

By: /s/ Stephen Furlong  
Name: Stephen Furlong  
Title: VP, Finance, Chief Financial Officer and Member of the Office of the President  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Neuronetics, Inc. (the "Company") for the fiscal quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 2, 2020

By: /s/ Keith J. Sullivan  
Name: Keith J. Sullivan  
Title: President and Chief Executive Officer(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Neuronetics, Inc. (the "Company") for the fiscal quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 2, 2020

By: /s/ Stephen Furlong  
Name: Stephen Furlong  
Title: VP, Finance, Chief Financial Officer and Member  
of the Office of the President(Principal Financial  
and Accounting Officer)