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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2024

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 Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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 30,295,465 shares of the registrant's common stock outstanding as of August 6, 2024.

NEURONETICS, INC.

Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2024

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.****NEURONETICS, INC.**
Balance Sheets
(Unaudited; In thousands, except per share data)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 42,642	\$ 59,677
Accounts receivable, net	17,143	15,782
Inventory	6,142	8,093
Current portion of net investments in sales-type leases	685	905
Current portion of prepaid commission expense	2,739	2,514
Current portion of notes receivable	2,363	2,056
Prepaid expenses and other current assets	3,792	4,766
Total current assets	<u>75,506</u>	<u>93,793</u>
Property and equipment, net	1,728	2,009
Operating lease right-of-use assets	2,480	2,773
Net investments in sales-type leases	268	661
Prepaid commission expense	8,626	8,370
Long-term notes receivable	3,152	3,795
Other assets	5,053	4,430
Total assets	<u>\$ 96,813</u>	<u>\$ 115,831</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,102	\$ 4,752
Accrued expenses	9,236	12,595
Deferred revenue	1,452	1,620
Current portion of operating lease liabilities	856	845
Current portion of long-term debt, net	13,612	—
Total current liabilities	<u>29,258</u>	<u>19,812</u>
Long-term debt, net	46,146	59,283
Deferred revenue	15	200
Operating lease liabilities	2,008	2,346
Total liabilities	<u>77,427</u>	<u>81,641</u>
Commitments and contingencies (Note 18)	—	—
Stockholders' equity:		
Preferred stock, \$0.01 par value: 10,000 shares authorized; no shares issued or outstanding on June 30, 2024 and December 31, 2023	—	—
Common stock, \$0.01 par value: 200,000 shares authorized; 30,136 and 29,092 shares issued and outstanding on June 30, 2024 and December 31, 2023, respectively	301	291
Additional paid-in capital	412,871	409,980
Accumulated deficit	<u>(393,786)</u>	<u>(376,081)</u>
Total Stockholders' equity	<u>19,386</u>	<u>34,190</u>
Total liabilities and Stockholders' equity	<u>\$ 96,813</u>	<u>\$ 115,831</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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenues	\$ 16,450	\$ 17,610	\$ 33,867	\$ 33,150
Cost of revenues	4,271	4,836	8,600	8,980
Gross profit	<u>12,179</u>	<u>12,774</u>	<u>25,267</u>	<u>24,170</u>
Operating expenses:				
Sales and marketing	12,303	11,559	23,943	23,461
General and administrative	6,148	6,200	12,105	12,812
Research and development	2,235	2,364	4,585	5,154
Total operating expenses	<u>20,686</u>	<u>20,123</u>	<u>40,633</u>	<u>41,427</u>
Loss from operations	<u>(8,507)</u>	<u>(7,349)</u>	<u>(15,366)</u>	<u>(17,257)</u>
Other (income) expense:				
Interest expense	1,978	1,144	3,804	2,396
Other income, net	(653)	(3,592)	(1,465)	(4,232)
Net loss	<u>\$ (9,832)</u>	<u>\$ (4,901)</u>	<u>\$ (17,705)</u>	<u>\$ (15,421)</u>
Net loss per share of common stock outstanding, basic and diluted	<u>\$ (0.33)</u>	<u>\$ (0.17)</u>	<u>\$ (0.59)</u>	<u>\$ (0.54)</u>
Weighted average common shares outstanding, basic and diluted	<u>30,052</u>	<u>28,590</u>	<u>29,762</u>	<u>28,316</u>

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

NEURONETICS, INC.
Statements 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, 2022	27,268	\$ 273	\$ 402,679	\$ (345,892)	\$ 57,060
Share-based awards and options exercises	1,197	12	(12)	—	—
Share-based compensation expense	—	—	1,805	—	1,805
Net loss	—	—	—	(10,520)	(10,520)
Balance at March 31, 2023	<u>28,465</u>	<u>\$ 285</u>	<u>\$ 404,472</u>	<u>\$ (356,412)</u>	<u>\$ 48,345</u>
Share-based awards and options exercises	348	3	(3)	—	—
Share-based compensation expense	—	—	2,033	—	2,033
Net loss	—	—	—	(4,901)	(4,901)
Balance at June 30, 2023	<u>28,813</u>	<u>\$ 288</u>	<u>\$ 406,502</u>	<u>\$ (361,313)</u>	<u>\$ 45,477</u>
Balance at December 31, 2023	29,092	\$ 291	\$ 409,980	\$ (376,081)	\$ 34,190
Share-based awards and options exercises	883	9	(9)	—	—
Share-based compensation expense	—	—	1,338	—	1,338
Net loss	—	—	—	(7,873)	(7,873)
Balance at March 31, 2024	<u>29,975</u>	<u>\$ 300</u>	<u>\$ 411,309</u>	<u>\$ (383,954)</u>	<u>\$ 27,655</u>
Share-based awards and options exercises	161	1	(1)	—	—
Share-based compensation expense	—	—	1,563	—	1,563
Net loss	—	—	—	(9,832)	(9,832)
Balance at June 30, 2024	<u>30,136</u>	<u>\$ 301</u>	<u>\$ 412,871</u>	<u>\$ (393,786)</u>	<u>\$ 19,386</u>

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

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

	Six Months Ended June 30,	
	2024	2023
Cash flows from Operating activities:		
Net loss	\$ (17,705)	\$ (15,421)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,115	1,004
Allowance for credit losses	1,238	(266)
Inventory impairment	94	—
Share-based compensation	2,901	3,838
Non-cash interest expense	474	322
Changes in certain assets and liabilities:		
Accounts receivable, net	(3,204)	(5,456)
Inventory	1,844	(7)
Net investments in sales-type leases	614	828
Prepaid commission expense	(482)	(620)
Prepaid expenses and other assets	683	(2,762)
Accounts payable	(844)	1,577
Accrued expenses	(3,359)	(6,462)
Deferred revenue	(353)	(622)
Net Cash used in Operating activities	<u>(16,984)</u>	<u>(24,047)</u>
Cash flows from Investing activities:		
Purchases of property and equipment and capitalized software	(991)	(938)
Repayment of notes receivable	940	113
Net Cash used in Investing activities	<u>(51)</u>	<u>(825)</u>
Cash flows from Financing activities:		
Payments of debt issuance costs	—	(863)
Proceeds from issuance of long-term debt	—	2,500
Repayment of long-term debt	—	(1,200)
Net Cash provided by Financing activities	<u>—</u>	<u>437</u>
Net decrease in Cash and Cash equivalents	(17,035)	(24,435)
Cash and Cash equivalents, Beginning of Period	59,677	70,340
Cash and Cash equivalents, End of Period	<u>\$ 42,642</u>	<u>\$ 45,905</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,330	\$ 2,075
Transfer of inventory to property and equipment	36	36
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property and equipment and capitalized software in accounts payable and accrued expenses	\$ 193	\$ 134
Reduction of accounts receivable in current and long-term notes receivable	\$ 606	\$ 6,330

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. (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 neurohealth 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 (“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 NeuroStar Advanced Therapy System was cleared in 2008 by the United States (“U.S.”) Food and Drug Administration (the “FDA”) to treat adult patients with major depressive disorder (“MDD”) who have failed to achieve satisfactory improvement from prior antidepressant medication in the current MDD episode. It is also cleared by the FDA as an adjunct for adults with obsessive-compulsive disorder (“OCD”), and to decrease anxiety symptoms in adult patients with MDD that may exhibit comorbid anxiety symptoms (anxious depression), and as an adjunct for the treatment of MDD in adolescent patients aged 15-21. The NeuroStar Advanced Therapy System 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.

Liquidity

As of June 30, 2024, the Company had cash and cash equivalents of \$42.6 million and an accumulated deficit of \$393.8 million. The Company incurred negative cash flows from operating activities of \$17.0 million for the six months ended June 30, 2024 and \$32.0 million for the year ended December 31, 2023. 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 initial public offering (“IPO”), private placements of its convertible preferred securities, borrowings under its credit facility, proceeds from its secondary public offering of common stock and revenues from sales of its products. As of June 30, 2024, the Company had \$60.0 million of borrowings outstanding under its credit facility, which had a final maturity in March 2028. Management believes that the Company’s cash and cash equivalents as of June 30, 2024, and anticipated revenues from sales of its products are sufficient to fund the Company’s operations for at least the next 12 months from the issuance of these financial statements.

As of June 30, 2024, the Company was not in compliance with its minimum net product revenue covenant under the SLR Facility, see “Note 14. Debt” for further discussion. The amount of borrowing affected by this noncompliance was \$60 million. Subsequently, on July 25, 2024 the Company entered into a Credit Agreement and Guaranty with Perceptive Credit Holdings IV, LP, (“Perceptive”) as collateral agent and other lenders defined in the agreement, see “Note 21. Subsequent Events” for further discussion on the Perceptive Credit Agreement.

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). Any reference in these notes to applicable guidance is meant to refer to U.S. GAAP as found in the Accounting Standards Codification and Accounting Standards Updates (“ASUs”) promulgated by the Financial Accounting Standards Board (the “FASB”).

Interim Financial Statements

The accompanying unaudited interim financial statements have been prepared from the books and records of the Company in accordance with U.S. GAAP for interim financial information and Rule 10-01 of Regulation S-X promulgated by the U.S. Securities and Exchange Commission (the “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’

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

equity 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 six months ended June 30, 2024 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 Annual Report on Form 10-K filed with the SEC on March 8, 2024, wherein a more complete discussion of significant accounting policies and certain other information can be found.

Use of Estimates

The preparation of financial statements in accordance with U.S. 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 materially 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 Annual Report on Form 10-K filed with the SEC on March 8, 2024.

4. RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Standards Adopted by the Company

In November 2023, the FASB issued ASU 2023-07, *Improvements to Reportable Segment Disclosures* ("ASU 2023-07"), which requires public companies to disclose for each reportable segment the significant expense categories and amounts for such expenses. ASU 2023-07 is effective for annual periods beginning December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. This ASU will be effective for our annual period ended December 31, 2024. The Company is currently evaluating the impacts of ASU 2023-07 on its disclosures.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures* ("ASU 2023-09"), which requires public business entities to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. This ASU will be effective for our annual period ended December 31, 2025. The Company is currently evaluating the impacts of ASU 2023-09 on its disclosures.

Other than the items noted above, there have been no new accounting pronouncements not yet effective or adopted in the current year that we believe have a significant impact, or potential significant impact, to our unaudited interim financial statements.

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

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 June 30, 2024 and December 31, 2023 due to their short-term nature. The carrying values of the Company's credit facility approximated its fair value as of June 30, 2024 and December 31, 2023 due to its variable interest rate. The carrying value of the Company's notes receivable approximated its fair value as of June 30, 2024 and December 31, 2023 due to its variable interest rate.

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 June 30, 2024 and December 31, 2023 (in thousands):

	June 30, 2024				
	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)	
Assets					
Money market funds (cash equivalents)	\$ 28,209	\$ 28,209	\$ 28,209	\$ —	\$ —

	December 31, 2023				
	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)	
Assets					
Money market funds (cash equivalents)	\$ 27,507	\$ 27,507	\$ 27,507	\$ —	\$ —

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

6. ACCOUNTS RECEIVABLE

The following table presents the composition of accounts receivable, net as of June 30, 2024 and December 31, 2023 (in thousands):

	June 30, 2024	December 31, 2023
Gross accounts receivable - trade	\$ 18,754	\$ 16,577
Less: Allowances for credit losses	(1,611)	(795)
Accounts receivable, net	<u>\$ 17,143</u>	<u>\$ 15,782</u>

7. INVENTORY

Inventory is stated at the lower of cost and net realizable value, with cost being determined on a first in, first out basis. The Company's inventory is primarily comprised of finished goods and work-in-process.

8. PROPERTY AND EQUIPMENT AND CAPITALIZED SOFTWARE

The following table presents the composition of property and equipment, net as of June 30, 2024 and December 31, 2023 (in thousands):

	June 30, 2024	December 31, 2023
Laboratory equipment	\$ 669	\$ 702
Office equipment	495	495
Auto	23	23
Computer equipment and software	1,119	1,082
Manufacturing equipment	557	551
Leasehold improvements	1,463	1,436
Rental equipment	578	542
Property and equipment, gross	4,904	4,831
Less: Accumulated depreciation	(3,176)	(2,822)
Property and equipment, net	<u>\$ 1,728</u>	<u>\$ 2,009</u>

As of June 30, 2024 and December 31, 2023, the Company had capitalized software costs, net of \$4.6 million and \$4.2 million, respectively, which are included in "Prepaid expenses and other current assets" and "Other assets" on the balance sheet.

Depreciation and amortization expense was \$0.6 million and \$0.5 million for the three months ended June 30, 2024 and 2023, respectively, and \$1.1 million and \$1.0 million for the six months ended June 30, 2024 and 2023, respectively.

9. NOTES RECEIVABLE

Greenbrook TMS Inc.

On March 31, 2023, the Company entered into a Secured Promissory Note and Guaranty Agreement (the "Promissory Note") with TMS Neurohealth Centers Inc. (the "Maker") and Greenbrook TMS Inc. and its subsidiaries, excluding the Maker (the "Guarantors"), in the principal amount of \$6.0 million for a period of four years.

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

Notes receivable outstanding from Greenbrook TMS Inc. was \$4.4 million and \$5.2 million as of June 30, 2024 and December 31, 2023, respectively.

The Promissory Note bears interest at a rate equal to the sum of (a) the floating interest rate of daily secured overnight financing rate as administered by the Federal Reserve Bank of New York on its website ("SOFR") plus (b) 7.65%.

Pursuant to the terms of the Promissory Note, in the event of an event of default thereunder, the Maker will be required to issue common share purchase warrants to the Company equal to (i) 200% of the unpaid amount of any delinquent amount or payment due and payable under the Promissory Note, together with all outstanding and unpaid accrued interest, fees, charges and costs, divided by (ii) the exercise price of the warrants, which will represent (i) if the Maker's common shares are traded on the Nasdaq Stock Market ("Nasdaq"), a 20% discount to the 30-day volume-weighted average closing price of Greenbrook TMS Inc.'s common shares traded on the Nasdaq prior to the date of issuance (subject to any limitations that may be required by Nasdaq), (ii) if the Maker's common shares are not then traded on Nasdaq, but are traded on the Toronto Stock Exchange ("TSX") or another nationally recognized U.S. or Canadian securities exchange, inter-dealer quotation system or over-the-counter market (an "Other Market"), a 20% discount to the 30-day volume-weighted average closing of Greenbrook TMS Inc's common shares traded on the TSX or Other Market, as elected by the Company, or (iii) if the Maker's common shares are not traded on any of the above trading markets, a 20% discount to the fair market value of a common share as determined pursuant to the Promissory Note.

Under the Promissory Note and related loan documents, the Maker and the Guarantors have granted to the Company a security interest in substantially all of the Maker's and the Guarantors' assets and the Guarantors have guaranteed the Maker's obligations under the Promissory Note. The Company's security interest pursuant to the Promissory Note and related loan documents ranks *pari passu* with the Maker's senior lender, Madryn Fund Administration, LLC, and is subject to an intercreditor agreement.

Interest income recognized by the Company related to notes receivable was \$0.2 million for the three months ended June 30, 2024 and 2023. Interest income recognized by the Company related to notes receivable was \$0.3 million and \$0.2 million for the six months ended June 30, 2024 and 2023, respectively, and is included within "Other income, net" on the statements of operations.

10. LEASES

Lessee:

The Company has operating leases for its corporate headquarters, a training facility and office equipment, including copiers. The Company leases an approximately 32,000 square foot facility in Malvern, Pennsylvania for its corporate headquarters, which includes office and warehouse space. The Company leases an approximately 9,600 square foot facility in Charlotte, North Carolina as a training facility for its NeuroStar Advanced Therapy Systems. 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 for the three months ended June 30, 2024 and 2023, and \$0.4 million for the six months ended June 30, 2024 and 2023. As of June 30, 2024, the weighted-average remaining lease term of operating leases was 3.6 years and the weighted-average discount rate was 7.2%.

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

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

	Six Months Ended	
	June 30, 2024	June 30, 2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 531	\$ 521

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

	June 30, 2024
Remainder of 2024	\$ 440
2025	898
2026	921
2027	882
2028	116
Total lease payments	3,257
Less imputed interest	(393)
Present value of operating lease liabilities	<u>\$ 2,864</u>

Lessor sales-type leases:

Certain customers have purchased NeuroStar Advanced Therapy Systems on a rent-to-own basis. The lease term is three or four 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Profit recognized at commencement, net	\$ 23	\$ 47	\$ 23	\$ 47
Interest income	—	—	—	—
Total sales-type lease income	<u>\$ 23</u>	<u>\$ 47</u>	<u>\$ 23</u>	<u>\$ 47</u>

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

	June 30, 2024
Remainder of 2024	\$ 433
2025	407
2026	86
2027	27
Total sales-type lease receivables	<u>\$ 953</u>

As of June 30, 2024, the carrying amount of the lease receivables is \$1.0 million. The Company does not have any unguaranteed residual assets.

Lessor operating leases:

NeuroStar Advanced Therapy Systems sold for which collection is not probable are accounted for as operating leases. For the three months ended June 30, 2024 and 2023, the Company recognized operating

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

lease income of \$0.03 million and \$0.04 million, respectively. For the six months ended June 30, 2024 and 2023, the Company recognized operating lease income of \$0.1 million.

The Company maintained rental equipment, net of \$0.3 million as of June 30, 2024 and December 31, 2023, which are included in "Property and equipment, net" on the balance sheet. Rental equipment depreciation expense was \$0.02 million for the three months ended June 30, 2024 and 2023, and \$0.05 million and \$0.04 million for the six months ended June 30, 2024 and 2023, respectively.

11. PREPAID COMMISSION EXPENSE

The Company pays a commission on both NeuroStar Advanced Therapy 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 NeuroStar Advanced Therapy 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 \$0.7 million and \$0.6 million for the three months ended June 30, 2024 and 2023, respectively, and \$1.4 million and \$1.1 million for the six months ended June 30, 2024 and 2023, respectively.

12. ACCRUED EXPENSES

The following table presents the composition of accrued expenses as of June 30, 2024 and December 31, 2023 (in thousands):

	June 30, 2024	December 31, 2023
Compensation and related benefits	\$ 5,418	\$ 8,003
Consulting and professional fees	693	488
Research and development expenses	172	260
Sales and marketing expenses	834	1,760
Warranty	255	213
Sales and other taxes payable	744	818
Other	1,120	1,053
Accrued expenses	<u>\$ 9,236</u>	<u>\$ 12,595</u>

13. REVENUE AND DEFERRED REVENUE

Payment terms typically require payment upon shipment or installation of the NeuroStar Advanced Therapy System and additional payments as access codes for treatment sessions are delivered, which can span several years after the NeuroStar Advanced Therapy 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 may be required for certain customers and are recorded as contract liabilities (deferred revenue). For multi-year agreements, the Company generally

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invoices customers annually at the beginning of each annual coverage period and recognizes revenue over the term of the coverage period.

As of June 30, 2024, the Company expects to recognize approximately the following percentages of deferred revenue by year:

Year:	Revenue Recognition
Remainder of 2024	62 %
2025	35 %
2026	2 %
2027	1 %
Total	100 %

Revenue recognized for the three months ended June 30, 2024 and 2023 that was included in the contract liability balance at the beginning of the year was \$0.4 million and \$0.5 million, respectively. Revenue recognized for the six months ended June 30, 2024 and 2023 that was included in the contract liability balance at the beginning of the year was \$1.1 million and \$1.4 million, respectively, and primarily represented revenue earned from separately priced extended warranties, customer deposits, milestone revenue, and clinical training.

Customers

Significant customers are those that represent more than 10% of the Company's total revenue. For the three months ended June 30, 2024 and 2023, one customer accounted for 14% of the Company's revenue. For the six months ended June 30, 2024 and 2023, one customer accounted for 13% and 16% of the Company's revenue, respectively.

Accounts receivable outstanding related to that customer was \$2.0 million and \$1.9 million as of June 30, 2024 and December 31, 2023, respectively.

Notes receivable outstanding related to that customer was \$4.4 million and \$5.2 million as of June 30, 2024 and December 31, 2023, respectively.

Geographical information

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 June 30,			
	2024		2023	
Amount	% of Revenues	Amount	% of Revenues	
(in thousands, except percentages)				
U.S.	\$ 16,130	98 %	\$ 17,289	98 %
International	320	2 %	321	2 %
Total revenues	\$ 16,450	100 %	\$ 17,610	100 %

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U.S. Revenues by Product Category				
Three Months Ended June 30,				
	2024		2023	
	Amount	% of	Amount	% of
	Revenues			
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ 4,000	25 %	\$ 4,489	26 %
Treatment sessions	11,660	72 %	12,314	71 %
Other	470	3 %	486	3 %
Total U.S. revenues	<u>\$ 16,130</u>	<u>100 %</u>	<u>\$ 17,289</u>	<u>100 %</u>

International Revenues by Product Category				
Three Months Ended June 30,				
	2024		2023	
	Amount	% of	Amount	% of
	Revenues			
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ —	— %	\$ 56	18 %
Treatment sessions	139	43 %	126	39 %
Other	181	57 %	139	43 %
Total international revenues	<u>\$ 320</u>	<u>100 %</u>	<u>\$ 321</u>	<u>100 %</u>

Revenues by Geography				
Six Months Ended June 30,				
	2024		2023	
	Amount	% of	Amount	% of
	Revenues			
	(in thousands, except percentages)			
U.S.	\$ 32,923	97 %	\$ 32,253	97 %
International	944	3 %	897	3 %
Total revenues	<u>\$ 33,867</u>	<u>100 %</u>	<u>\$ 33,150</u>	<u>100 %</u>

U.S. Revenues by Product Category				
Six Months Ended June 30,				
	2024		2023	
	Amount	% of	Amount	% of
	Revenues			
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ 7,310	22 %	\$ 8,339	26 %
Treatment sessions	24,648	75 %	22,957	71 %
Other	965	3 %	957	3 %
Total U.S. revenues	<u>\$ 32,923</u>	<u>100 %</u>	<u>\$ 32,253</u>	<u>100 %</u>

International Revenues by Product Category				
Six Months Ended June 30,				
	2024		2023	
	Amount	% of	Amount	% of
	Revenues			
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ 259	27 %	\$ 314	35 %
Treatment sessions	309	33 %	310	35 %
Other	376	40 %	273	30 %
Total International revenues	<u>\$ 944</u>	<u>100 %</u>	<u>\$ 897</u>	<u>100 %</u>

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14. DEBT

The following table presents the composition of debt as of June 30, 2024 and December 31, 2023 (in thousands):

	June 30, 2024	December 31, 2023
Outstanding principal	\$ 60,000	\$ 60,000
Accrued final payment fees	2,970	1,856
Less debt discounts	(3,212)	(2,573)
Total debt, net	59,758	59,283
Less current portion	(13,612)	—
Long-term debt, net	<u>\$ 46,146</u>	<u>\$ 59,283</u>

For the three months ended June 30, 2024, the Company recognized interest expense of \$2.0 million, of which \$1.7 million was cash and \$0.3 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 June 30, 2023, the Company recognized interest expense of \$1.1 million, of which \$1.0 million was cash and \$0.1 million was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of final payment fees.

For the six months ended June 30, 2024, the Company recognized interest expense of \$3.8 million, of which \$3.3 million was cash and \$0.5 million was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of final payment fees. For the six months ended June 30, 2023, the Company recognized interest expense of \$2.4 million, of which \$2.1 million was cash and \$0.3 million was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of final payment fees.

SLR Credit Facility

On March 2, 2020 the Company entered into a Loan and Security Agreement with Solar Capital Ltd as collateral agent and other lenders as defined in the agreement (such agreement, as amended, the "SLR Facility").

On March 7, 2024, the Company entered into a sixth amendment (the "SLR Sixth Amendment") to the SLR Facility. Under the SLR Sixth Amendment, SLR: (a) waived the specified events with respect to the Company's non-compliance with the required revenue under the net product revenue covenant; and (b) amended the financial covenants and increased the amount of the liquidity covenant and temporarily decreased the net product revenue covenant to reflect current projections.

On September 29, 2023, the Company entered into a fifth amendment (the "SLR Fifth Amendment") to the SLR Facility. The SLR Fifth Amendment allowed the Company to draw on the \$22.5 million Term C Loan portion of the SLR Facility and revised the required testing levels of the net product revenue and minimum liquidity covenants for certain testing periods. On October 3, 2023, the Company borrowed \$22.5 million under the Term C Loan portion of the SLR Facility, resulting in total borrowing of \$60 million.

On March 29, 2023, the Company entered into a fourth amendment (the "SLR Fourth Amendment") to the Loan and Security Agreement dated March 2, 2020 with SLR Investment Corp. (formerly known as Solar Capital Ltd.). The SLR Fourth Amendment increased the borrowings by \$2.5 million, extended the interest only period from March 2023 to March 2026, and extended the maturity date from February 2025 to March 2028. In addition, the SLR Fourth Amendment changed the basis of the interest expense from LIBOR to SOFR.

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The SLR Facility 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 5.65% plus (a) 3.95% or (b) daily simple SOFR for a term of one month. Only interest was required to be paid on the SLR Facility until March 1, 2026. Prior to the effectiveness of the SLR Fourth Amendment, the interest only period with respect to the Term A Loan expired on March 1, 2023. Commencing April 1, 2026, the Company was required to make monthly payments of principal and interest on the SLR Facility.

In addition to the principal and interest payments due under the SLR Facility, the Company was required to pay a final payment fee to SLR upon the earlier of prepayment, acceleration or the maturity date of the SLR Facility equal to 4.95% of the principal amount of the term loans actually funded. If the Company prepaid the SLR Facility prior to their respective scheduled maturities, the Company will also be required to pay prepayment fees to SLR equal to 3% of the principal amount of such term loan then-prepaid if prepaid on or before the first anniversary of the Term C Funding Date, 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 the Term C Funding Date, or 1% of the principal amount of such term loan then-prepaid if prepaid after the second anniversary of the Term C Funding Date.

The Company was also required to pay SLR an exit fee upon the occurrence of (a) any liquidation, dissolution or winding up of the Company, (b) any 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 2% 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 1% of the principal amount of the term loans actually funded or, if both net product revenue milestones are achieved, 2% of the principal amount of the term loans actually funded. The exit fee was capped at 2% of the principal amount of the term loans actually funded.

On January 31, 2024 and February 29, 2024, the Company was not in compliance with its minimum net product revenue covenant under the SLR Facility. The Company was granted a waiver from SLR in the SLR Sixth Amendment for the covenant violations. The amount of borrowings affected by this noncompliance was \$60 million.

As of June 30, 2024, the Company was not in compliance with its minimum net product revenue covenant under the SLR Facility. The amount of borrowing affected by this noncompliance was \$60 million.

Subsequently, on July 25, 2024, the Company entered into a Credit Agreement and Guaranty with Perceptive Credit Holdings IV, LP, ("Perceptive") as collateral agent and other lenders defined in the agreement, see "Note 21. Subsequent Events" for further discussion on the Perceptive Credit Agreement.

The Company projects to be in compliance with the covenants under the Perceptive Credit Agreement going forward.

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15. 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 June 30, 2024 and December 31, 2023 (in thousands):

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Shares of common stock issued	30,136	29,092
Shares of common stock reserved for issuance for:		
Common stock warrants outstanding	21	41
Stock options outstanding	1,258	1,270
Restricted stock units outstanding	3,433	3,360
Shares available for grant under stock incentive plans	855	978
Shares available for sale under employee stock purchase plan	1,624	1,335
Total shares of common stock issued and reserved for issuance	<u>37,327</u>	<u>36,076</u>

Common Stock Warrants

The following tables summarize the Company's outstanding common stock warrants as of June 30, 2024, and December 31, 2023:

June 30, 2024 Warrants Outstanding (in thousands)	Exercise Price	Expiration Date
21	\$ 9.73	Dec-2024
<u>21</u>		

December 31, 2023 Warrants Outstanding (in thousands)	Exercise Price	Expiration Date
20	\$ 9.73	Mar-2024
21	\$ 9.73	Dec-2024
<u>41</u>		

16. 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 the Company achieves profitability in the future, 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, non-vested restricted stock units and non-vested performance restricted stock units ("PRsUs") using the treasury stock method,

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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 June 30, 2024 and 2023 have been excluded from the denominator of the diluted loss per share of common stock outstanding calculation (in thousands):

	June 30,	
	2024	2023
Stock options	1,258	1,277
Non-vested PRSUs	395	395
Non-vested restricted stock units	3,038	3,312
Common stock warrants	21	61

17. 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 six months ended June 30, 2024 and 2023 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Cost of revenues	\$ 37	\$ 36	\$ 71	\$ 72
Sales and marketing	359	713	709	1,356
General and administrative	976	1,115	1,753	2,082
Research and development	191	169	368	328
Total	\$ 1,563	\$ 2,033	\$ 2,901	\$ 3,838

2018 Equity Incentive Plan

In June 2018, the Company adopted the 2018 Equity Incentive Plan, (the "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 units generally vest ratably in three equal installments on the first, second and third anniversaries of the grant date. PRSUs generally vest based on appreciation of the Company's common stock to a certain price as determined by the Company's board of directors measured using a trailing 30-day volume-weighted average price of a share of the Company's common stock. The fair value of the PRSU awards are determined using a risk neutral Monte Carlo simulation valuation model. As of June 30, 2024, there were 0.7 million shares available for future issuance under the 2018 Plan.

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2020 Inducement Incentive Plan

In December 2020, the Company adopted the 2020 Inducement Incentive Plan (the “2020 Plan”), which authorized the issuance of up to 0.4 million shares, subject to increase by approval of the Company’s board of directors, in the form of stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards and other stock awards to eligible employees who satisfy the standards for inducement grants under Nasdaq Global Market rules. In March 2022, the Company’s board of directors approved an additional 0.5 million shares for the issuance under the 2020 Plan. An individual who previously served as an employee or director of the Company is not eligible to receive awards under the 2020 Plan. The amount and terms of grants are determined by the Company’s board of directors. As of June 30, 2024, there were 0.1 million shares available for future issuance under the 2020 Plan.

Stock Options

The following table summarizes the Company’s stock option activity for the six months ended June 30, 2024:

	Number of Shares under Option (in thousands)	Weighted average Exercise Price per Option	Weighted average Remaining Contractual Life (in years)	Aggregate average Intrinsic Value (in thousands)
Outstanding at December 31, 2023	1,270	\$ 3.90		
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited and Expired	(12)	\$ 11.48		
Outstanding at June 30, 2024	1,258	\$ 3.82	5.8	\$ 5.1
Exercisable at June 30, 2024	1,237	\$ 3.85	5.7	\$ 5.1
Vested and expected to vest at June 30, 2024	1,258	\$ 3.82	5.8	\$ 5.1

The Company recognized share-based compensation expense related to stock options of \$0.1 million for the three months ended June 30, 2024 and 2023, and \$0.1 million and \$0.3 million for the six months ended June 30, 2024 and 2023, respectively. As of June 30, 2024, there was no remaining unrecognized compensation cost related to non-vested stock options.

For the six months ended June 30, 2024 the Company did not grant stock options.

Restricted Stock Units and PRSUs

The following table summarizes the Company’s restricted stock unit and PRSU activity for June 30, 2024:

	Non-vested Restricted Stock Units (in thousands)	Weighted average Grant-date Fair Value	Non-vested PRSUs (in thousands)	Weighted average Grant-date Fair Value
Non-vested at December 31, 2023	2,965	\$ 4.37	395	\$ 6.77
Granted	1,535	\$ 3.24	—	\$ —
Vested	(1,226)	\$ 4.61	—	\$ —
Forfeited	(236)	\$ 4.36	—	\$ —
Non-vested at June 30, 2024	3,038	\$ 3.69	395	\$ 6.77

The Company recognized \$1.5 million and \$1.9 million in share-based compensation expense related to the restricted stock units and PRSUs for the three months ended June 30, 2024 and 2023, respectively, and \$2.8 million and \$3.6 million for the six months ended June 30, 2024 and 2023, respectively. As of June 30, 2024, there was \$8.8 million of unrecognized compensation cost related to non-vested restricted stock units and

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PRSUs, which the Company expects to recognize over a weighted-average period of 2.0 years. The total fair value at the vesting date of restricted stock units and PRSUs vested during the six months ended June 30, 2024 was \$4.0 million.

The Company did not grant PRSUs during the six months ended June 30, 2024.

18. 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.

19. 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.

20. GOVERNMENT ASSISTANCE

Employee Retention Credit

The Coronavirus Aid, Relief and Economic Security Act provided an Employee Retention Credit (the "ERC"), which was a refundable tax credit related to certain payroll taxes. The Company applied the grant model and determined that the criteria for recognition of the ERC was met during the year ended December 31, 2023 based on the Company's determination of eligibility and filing of the ERC claim. As of June 30, 2024, the \$2.9 million ERC receivable is reported within "Prepaid expenses and other current assets" on the Company's balance sheets.

21. SUBSEQUENT EVENTS

On July 25, 2024, the Company entered into a Credit Agreement and Guaranty with Perceptive Credit Holdings IV, LP, as collateral agent and other lenders defined in the agreement (the "Perceptive Facility") that was used to repay the Company's previous \$60.0 million credit facility with SLR Investment Corp.

The Perceptive Facility permits the Company to borrow up to an aggregate amount of \$90.0 million in three tranches of term loans, a "Tranche 1 Loan", a "Tranche 2 Loan" and a "Tranche 3 Loan." On July 25, 2024, the Company borrowed an aggregate amount of \$50.0 million, which was the aggregate amount available under the Tranche 1 Loan portion of the Perceptive Facility. Under the Tranche 2 Loan portion of the Perceptive 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 revenue, and (ii) assuming there has been no event of default under the Perceptive Facility prior to such election. The Tranche 2 Loan portion of the Perceptive Facility must be borrowed on or before December 31, 2025. Under the Tranche 3 Loan portion of the Perceptive Facility, the Company may request to borrow, at the consent of the Majority Lenders (as defined in the Perceptive Facility), up to an aggregate amount of \$25.0 million. The

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Tranche 3 Loan portion of the Perceptive Facility must be borrowed on or before June 30, 2026. All amounts borrowed under the Perceptive Facility are due on July 25, 2029.

Each of the Tranche 1 Loan, Tranche 2 Loan and Tranche 3 Loan accrues interest from the date of borrowing through the date of repayment at a floating per annum rate of interest equal to the sum of 7.00% plus the greater of (a) 4.50% and (b) One-Month Term SOFR (as defined in the Perceptive Facility). There will be no scheduled repayments of the principal on the Tranche 1 Loan, Tranche 2 Loan and Tranche 3 Loan prior to the maturity date.

If the Company prepays either the Tranche 1 Loan, Tranche 2 Loan or Tranche 3 Loan prior to their scheduled maturity date, the Company will also be required to pay prepayment fees to Perceptive equal to 6% of the principal amount of such term loan then-prepaid if prepaid on or before the first anniversary of the closing date, 5% of the principal amount of such term loan then-prepaid if prepaid after the first anniversary and on or before the second anniversary of the closing date, 4% of the principal amount of such term loan then-prepaid if prepaid after the second anniversary and on or before the third anniversary of the closing date, and 3% of the principal amount of such term loan then-prepaid if prepaid after the third anniversary and on or before the fourth anniversary of the closing date.

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 Perceptive Facility requires the Company to comply with a quarterly minimum trailing revenue covenant and a \$5 million liquidity covenant as well as customary affirmative and negative covenants.

The Perceptive 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) insolvency; (v) material cross-defaults; (vi) significant judgments, orders or decrees for payments by the Company; (vii) incorrectness of representations and warranties; (viii) significant adverse ERISA events; (ix) failure by the Company to be registered with the United States Securities and Exchange Commission in good standing; and (x) failure by the Company to maintain a valid and perfected lien on the collateral securing the borrowing.

As consideration for the Perceptive Facility, the Company agreed to issue to Perceptive warrants to purchase up to 1,462,500 shares of the Company's common stock, with a warrant exercisable into 1,125,000 shares of the Company's common stock issued on the closing date (the "Initial Warrant"). The per share exercise price for the Initial Warrant is equal to the lower of (x) the 10-day volume weighted average price of the Company's common stock on the business day immediately prior to the closing date and (y) the 10-day volume weighted average price of the common stock ended on August 31, 2024. In addition to the Initial Warrant, an additional warrant will be issued for 337,500 shares of common stock concurrently with the borrowing of the Tranche 2 Loan. The per share exercise price for the additional warrant will be equal to the exercise price of the Initial Warrant. Each warrant will be exercisable, in whole or in part, until the tenth anniversary of the applicable date of issuance.

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 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). 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 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.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “would,” “should,” “expect,” “plan,” “design,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential,” “outlook” 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 8, 2024. These risks and uncertainties include, without limitation, risks and uncertainties related to: 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 revenue has been concentrated among a small number of customers; our ability to obtain and maintain intellectual property protection for our technology; developments in clinical trials or regulatory review of the NeuroStar Advanced Therapy System for additional indications; developments in regulation in the U.S. and other applicable jurisdictions; the terms of our credit facility; our ability to successfully roll-out our Better Me Guarantee Provider Program on the planned timeline; our self-sustainability and existing cash balances; and our ability to achieve cash flow break-even in the fourth quarter of 2024 and on a full-year basis in 2025. 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. The Company cautions investors not to place undue reliance on these 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 in this Quarterly Report on Form 10-Q as a result of any new information, future events or 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 neurohealth disorders. Our first commercial product, the NeuroStar Advanced Therapy System, is a non-invasive and non-systemic office-based treatment that uses 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 NeuroStar Advanced

Therapy System is cleared by the FDA to treat adult patients with MDD that have failed to achieve satisfactory improvement from prior antidepressant medication in the current MDD episode. It is also cleared by the FDA as an adjunct for adults with OCD, and to decrease anxiety symptoms in adult patients with MDD that may exhibit comorbid anxiety symptoms (anxious depression), and as an adjunct for the treatment of MDD in adolescent patients aged 15-21. The NeuroStar Advanced Therapy System is safe, clinically effective, reproducible and precise and we believe is supported by the largest clinical data set of any competing TMS system. We believe we are the market leader in TMS therapy based on over 182,125 global patients treated with over 6.6 million of our treatment sessions through June 30, 2024. We generated revenues of \$16.5 million and \$17.6 million for the three months ended June 30, 2024 and 2023, respectively, and \$33.9 million and \$33.2 million for the six months ended June 30, 2024 and 2023, respectively.

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, service and repair and extended warranty contracts. We derive the majority of our revenues from recurring treatment sessions. For the three months ended June 30, 2024, revenues from sales of our treatment sessions and NeuroStar Advanced Therapy Systems represented 72% and 25% of our U.S. revenues, respectively, and for the three months ended June 30, 2023 revenues from sales of our treatment sessions and NeuroStar Therapy Systems represented 71% and 26% of our U.S. revenues, respectively. For the six months ended June 30, 2024, revenues from sales of our treatment sessions and NeuroStar Advanced Therapy Systems represented 75% and 22% of our U.S. revenues, respectively, and for the six months ended June 30, 2023 revenues from sales of our treatment sessions and NeuroStar Therapy Systems represented 71% and 26% of our U.S. revenues, respectively.

We currently sell our NeuroStar Advanced Therapy System and recurring treatment sessions in the U.S. with the collaborative support of our 203 employees as of June 30, 2024. Symphony Health estimates that there are approximately 26,300 group and solo practice sites in the U.S. with psychiatrists that prescribe antidepressant medications. Our direct sales force primarily targets 53,000 psychiatrists at 26,300 psychiatric practices that treat approximately 13.9 million patients based on data from the *Journal of the American Medical Association*. Some of our customers have purchased or may purchase more than one NeuroStar Advanced Therapy System. Based on our commercial data, 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 our customers can generate approximately \$8,500 of average revenue per patient for a standard course of treatment, which may provide meaningful incremental income to their practices. We have a diverse customer base, including psychiatrists in group psychiatric practices, pain management physicians and other medical professionals in the U.S. For the three and six months ended June 30, 2024, one customer accounted for more than 10% of our revenues.

We market our products in a few select markets outside the U.S. through independent distributors. International revenues represented 2% of our total revenues for the three months ended June 30, 2024 and 2023, and 3% for the six months ended June 30, 2024 and 2023. In October 2017, we entered into an exclusive distribution agreement with Teijin Pharma Limited 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. We obtained reimbursement coverage for the NeuroStar Advanced Therapy System in Japan, which went into effect on June 1, 2019 and covers patients who are treated in the largest inpatient and outpatient psychiatric facilities in Japan. We expect our international revenues to be consistent as a percentage of our total revenue.

Our research and development efforts are focused on hardware and software product developments, enhancements of our NeuroStar Advanced Therapy System, and clinical development relating to additional indications. 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.

Total revenues decreased by \$1.1 million, or 7%, from \$17.6 million for the three months ended June 30, 2023 to \$16.5 million for the three months ended June 30, 2024 and increased by \$0.7 million, or 2%, from \$33.2 million for the six months ended June 30, 2023 to \$33.9 million for the six months ended June 30, 2024.

For the three months ended, June 30, 2024, our U.S revenue was \$16.1 million, compared to \$17.3 million for the three months ended June 30, 2023, which represents a decrease of 7% period over period. The decrease was primarily attributable to a decrease in U.S. Treatment sessions and U.S NeuroStar Advanced Therapy System sales period over period.

For the six months ended June 30, 2024, our U.S. revenue was \$32.9 million, compared to \$32.3 million for six months ended June 30, 2023, which represents an increase of 2% period over period. The increase was primarily attributable to an increase in U.S. Treatment sessions sales period over period.

We incurred net losses of \$9.8 million and \$17.7 million for the three and six months ended June 30, 2024 compared to net losses of \$4.9 million and \$15.4 million for three and six months ended June 30, 2023. 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 June 30, 2024, we had an accumulated deficit of \$393.8 million.

Global Economic Conditions

We are continuing to closely monitor macroeconomic impacts, including, but not limited to, developments affecting financial institutions, inflationary and potential recessionary pressures, on our business, results of operations and financial results. We currently believe these conditions have no material impact.

Components of Our Results of Operations

Revenues

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 U.S.

NeuroStar Advanced Therapy System Revenues. NeuroStar Advanced Therapy System revenues consist primarily of sales or rentals of a capital component, including equipment upgrades to the initial sale of the NeuroStar Advanced Therapy System. NeuroStar Advanced Therapy Systems can be purchased outright or on a rent-to-own basis by certain customers.

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 U.S. The SenStar treatment links are disposable units containing single-use access codes that are sold and used outside the U.S. 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” in our Annual Report on Form 10-K filed with the SEC on March 8, 2024. We also refer you to “Note 3. Summary of Significant Accounting Policies” in Notes to Interim Financial Statements located in Part I – FINANCIAL INFORMATION, Item 1. Financial Statements.

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, warranty, shipping, and our operations and field service departments. We expect our cost of revenues to increase 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 include conferences and trade shows, promotional and marketing activities, including direct and online marketing, practice support programs and radio media campaigns, co-op marketing, travel and training expenses.

We anticipate that our sales and marketing expenses will remain materially consistent during 2024 compared to 2023 expenses. We have plans to grow the co-op marketing program, but that increase in expense will be offset by savings in other areas.

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 remain relatively consistent during 2024 compared to our 2023 expenses.

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 related to neurohealth disorders, as well as for various hardware and software development projects. As a result, we expect our research and development expenses to increase during 2024 compared to our 2023 expenses.

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 Income, Net

Other income, net consists primarily of interest income earned on our money market account balances and notes receivable.

Results of Operations

Comparison of the three months ended June 30, 2024 and 2023

	Three Months Ended June 30,		Increase / (Decrease)	
	2024	2023	Dollars	Percentage
	(in thousands, except percentages)			
Revenues	\$ 16,450	\$ 17,610	\$ (1,160)	(7)%
Cost of revenues	4,271	4,836	(565)	(12)%
Gross Profit	12,179	12,774	(595)	(5)%
Gross Margin	74.0 %	72.5 %		
Operating expenses:				
Sales and marketing	12,303	11,559	744	6 %
General and administrative	6,148	6,200	(52)	(1)%
Research and development	2,235	2,364	(129)	(5)%
Total operating expenses	20,686	20,123	563	3 %
Loss from Operations	(8,507)	(7,349)	(1,158)	(16)%
Other (income) expense:				
Interest expense	1,978	1,144	834	73 %
Other income, net	(653)	(3,592)	2,939	(82)%
Net Loss	\$ (9,832)	\$ (4,901)	\$ (4,931)	(101)%

	Revenues by Geography			
	Three Months Ended June 30,			
	2024		2023	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
U.S.	\$ 16,130	98 %	\$ 17,289	98 %
International	320	2 %	321	2 %
Total revenues	\$ 16,450	100 %	\$ 17,610	100 %

	U.S. Revenues by Product Category			
	Three Months Ended June 30,			
	2024		2023	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ 4,000	25 %	\$ 4,489	26 %
Treatment sessions	11,660	72 %	12,314	71 %
Other	470	3 %	486	3 %
Total U.S. revenues	\$ 16,130	100 %	\$ 17,289	100 %

Revenues

Total revenue for the three months ended June 30, 2024 was \$16.5 million, a decrease of 7% compared to the three months ended June 30, 2023 revenue of \$17.6 million. During the quarter, total U.S. revenue decreased by 7% and international revenue was consistent with the prior year quarter. The decrease in U.S. revenue was primarily attributable to a decrease in U.S. Treatment sessions and U.S NeuroStar Advanced Therapy System sales period over period.

U.S. NeuroStar Advanced Therapy System revenue for the three months ended June 30, 2024 was \$4.0 million, a decrease of 11% compared to the three months ended June 30, 2023 revenue of \$4.5 million. For the three months ended June 30, 2024 and 2023, the Company sold 49 and 54 systems, respectively, that were recognized as NeuroStar Advanced Therapy System capital revenue during each period. Additionally, for the three months ended June 30, 2024, the Company executed 1 operating lease agreement that contributed to operating lease revenue.

U.S. treatment session revenue for the three months ended June 30, 2024 was \$11.7 million, a decrease of 5% compared to the three months ended June 30, 2023 revenue of \$12.3 million. The decrease in revenue was primarily attributable to a decrease in treatment session volume over the prior year quarter. The decline was primarily a function of our customers facing cash flow difficulties stemming from the Change Health cyberattack.

Cost of Revenues and Gross Margin

Cost of revenues decreased by \$0.5 million, or 12%, from \$4.8 million for the three months ended June 30, 2023 to \$4.3 million for the three months ended June 30, 2024. Gross margin increased from 72.5% for the three months ended June 30, 2023 to 74.0% for the three months ended June 30, 2024. The increase in gross margin was primarily a result of the change in product mix and absence of one-time manufacturing cost charged in 2023 by our new contract manufacturer.

Sales and Marketing Expenses

Sales and marketing expenses increased by \$0.7 million, or 6%, from \$11.6 million for the three months ended June 30, 2023 to \$12.3 million for the three months ended June 30, 2024. The increase was primarily due to the NeuroStar University program spend and bad debt expense.

General and Administrative Expenses

General and administrative expenses remained materially consistent, decreasing from \$6.2 million for the three months ended June 30, 2023 to \$6.1 million for the three months ended June 30, 2024.

Research and Development Expenses

Research and development expenses decreased by \$0.2 million, or 5%, from \$2.4 million for the three months ended June 30, 2023 to \$2.2 million for the three months ended June 30, 2024. The decrease was primarily due to higher software capitalization related to the latest development of the NeuroStar system.

Interest Expense

Interest expense increased by \$0.9 million, or 73%, from \$1.1 million for the three months ended June 30, 2023 to \$2.0 million for the three months ended June 30, 2024 due to an increase in interest rates and increase in debt balance.

Other Income, Net

Other income, net decreased by \$2.9 million, or 82%, from \$3.6 million for the three months ended June 30, 2023 to \$0.7 million for the three months ended June 30, 2024, primarily as a result of ERC of \$2.9 million recorded for the three months ended June 30, 2023 and decreased interest income earned on the Company's money market accounts which was partially offset by increase in notes receivable interest.

Comparison of the six months ended June 30, 2024 and 2023

	Six Months Ended June 30,		Increase / (Decrease)	
	2024	2023	Dollars	Percentage
	(in thousands, except percentages)			
Revenues	\$ 33,867	\$ 33,150	\$ 717	2 %
Cost of revenues	8,600	8,980	(380)	(4)%
Gross Profit	25,267	24,170	1,097	5 %
Gross Margin	74.6 %	72.9 %		
Operating expenses:				
Sales and marketing	23,943	23,461	482	2 %
General and administrative	12,105	12,812	(707)	(6)%
Research and development	4,585	5,154	(569)	(11)%
Total operating expenses	40,633	41,427	(794)	(2)%
Loss from Operations	(15,366)	(17,257)	1,891	11 %
Other (income) expense:				
Interest expense	3,804	2,396	1,408	59 %
Other income, net	(1,465)	(4,232)	2,767	65 %
Net Loss	\$ (17,705)	\$ (15,421)	\$ (2,284)	(15)%

	Revenues by Geography Six Months Ended June 30,			
	2024		2023	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
United States	\$ 32,923	97 %	\$ 32,253	97 %
International	944	3 %	897	3 %
Total revenues	\$ 33,867	100 %	\$ 33,150	100 %

	U.S. Revenues by Product Category Six Months Ended June 30,			
	2024		2023	
	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)			
NeuroStar Advanced Therapy System	\$ 7,310	22 %	\$ 8,339	26 %
Treatment sessions	24,648	75 %	22,957	71 %
Other	965	3 %	957	3 %
Total U.S. revenues	\$ 32,923	100 %	\$ 32,253	100 %

Revenues

Total revenue for the six months ended June 30, 2024 was \$33.9 million, an increase of 2% compared to the six months ended June 30, 2023 revenue of \$33.2 million. During the six months ended June 30, 2024, total U.S. revenue increased by 2% and international revenue increased by 5%. The U.S. revenue growth was primarily driven by an increase in treatment sessions sales. The increase in international revenue was primarily driven by an increase in treatment session sales.

U.S. NeuroStar Advanced Therapy System revenue for the six months ended June 30, 2024 was \$7.3 million, a decrease of \$1.0 million compared to the six months ended June 30, 2023 revenue of \$8.3 million. For the six months ended June 30, 2024 and 2023, the Company sold 89 and 103 systems, respectively, that were recognized as NeuroStar Advanced Therapy System capital revenue during each period. Additionally, for the six months ended June 30, 2024 the Company executed 1 operating lease agreement which contributed to operating lease revenue.

U.S. treatment session revenue for the six months ended June 30, 2024 was \$24.6 million, an increase of 7% compared to the six months ended June 30, 2023 revenue of \$23.0 million. The revenue growth was primarily driven by an increase in treatment session volume and utilization over the comparative period.

Cost of Revenues and Gross Margin

Cost of revenues decreased by \$0.4 million, or 4%, from \$9.0 million for the six months ended June 30, 2023 to \$8.6 million for the six months ended June 30, 2024. Gross margin increased from 72.9% for the six months ended June 30, 2023 to 74.6% for the six months ended June 30, 2024. The increase in gross margin was primarily a result of increased sales volume of our treatment session sales resulting in a more favorable product mix and absence of one-time manufacturing cost charged in 2023 by our new contract manufacturer.

Sales and Marketing Expenses

Sales and marketing expenses increased by \$0.4 million, or 2%, from \$23.5 million for the six months ended June 30, 2023 to \$23.9 million for the six months ended June 30, 2024. The increase was primarily driven by growth in co-op marketing and bad debt expense.

General and Administrative Expenses

General and administrative expenses decreased by \$0.7 million, or 6% from \$12.8 million for the six months ended June 30, 2023 to \$12.1 million for the six months ended June 30, 2024. The decrease was primarily due to a decrease in personnel expenses and legal costs in the current period versus the prior period.

Research and Development Expenses

Research and development expenses decreased by \$0.6 million, or 11% from \$5.2 million for the six months ended June 30, 2023 to \$4.6 million for the six months ended June 30, 2024. The decrease in research and development was primarily due to higher capitalization of product development costs related to certain of the Company's software project costs.

Interest Expense

Interest expense increased by \$1.4 million from \$2.4 million for the six months ended June 30, 2023 to \$3.8 million for the six months ended June 30, 2024 due to an increase in interest rates and debt balance.

Other Income, Net

Other income, net decreased by \$2.7 million from \$4.2 million for the six months ended June 30, 2023 to \$1.5 million for the six months ended June 30, 2024, primarily as a result of ERC of \$2.9 million recorded for the

six months ended June 30, 2023 and decreased interest income earned on the Company's money market accounts which was partially offset by increase in notes receivable interest.

Liquidity and Capital Resources

Overview

As of June 30, 2024, we had cash and cash equivalents of \$42.6 million and an accumulated deficit of \$393.8 million, compared to cash and cash equivalents of \$59.7 million and an accumulated deficit of \$376.1 million as of December 31, 2023. We incurred negative cash flows from operating activities of \$17.0 million and \$24.0 million for the six months ended June 30, 2024 and 2023, respectively. We have incurred operating losses since our inception, and we anticipate that our operating losses will lessen in the near term as we adjust our sales and marketing initiatives, research and development activities and other corporate initiatives. 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 facility, proceeds from its secondary public offering of common stock and revenues from sales of its products. As of June 30, 2024, the Company had \$60.0 million of borrowings outstanding under its credit facility, which had a final maturity in March 2028. Management believes that the Company's cash and cash equivalents as of June 30, 2024 and anticipated revenues from sales of its products are sufficient to fund the Company's operations for at least 12 months from the issuance of these financial statements.

If our cash and cash equivalents and anticipated revenues from sales of our products 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. As of June 30, 2024, the Company was not in compliance with its minimum net product revenue covenant under the SLR Facility, see "Note 14. Debt" for further discussion. The amount of borrowing affected by this noncompliance was \$60 million.

Subsequently, on July 25, 2024, the Company entered into a Credit Agreement and Guaranty with Perceptive Credit Holdings IV, LP, ("Perceptive") as collateral agent and other lenders defined in the agreement (the "Perceptive Facility") that replaced the Company's previous \$60.0 million credit facility with SLR Investment Corp ("SLR", and such facility, the "SLR Facility").

The Perceptive Facility permits the Company to borrow up to an aggregate amount of \$90.0 million in three tranches of term loans, a "Tranche 1 Loan", a "Tranche 2 Loan" and a "Tranche 3 Loan." On July 25, 2024, the Company borrowed an aggregate amount of \$50.0 million, which was the aggregate amount available under the Tranche 1 Loan portion of the Perceptive Facility. Under the Tranche 2 Loan portion of the Perceptive 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 revenue, and (ii) assuming there has been no event of default under the Perceptive Facility prior to such election. The Tranche 2 Loan portion of the Perceptive Facility must be borrowed on or before December 31, 2025. Under the Tranche 3 Loan portion of the Perceptive Facility, the Company may request to borrow, at the consent of the Majority Lenders (as defined in the Perceptive Facility), up to an aggregate amount of \$25.0 million. The

Tranche 3 Loan portion of the Perceptive Facility must be borrowed on or before June 30, 2026. All amounts borrowed under the Perceptive Facility are due on July 25, 2029.

Each of the Tranche 1 Loan, Tranche 2 Loan and Tranche 3 Loan accrues interest from the date of borrowing through the date of repayment at a floating per annum rate of interest equal to the sum of 7.00% plus the greater of (a) 4.50% and (b) One-Month Term SOFR (as defined in the Perceptive Facility). There will be no scheduled repayments of the principal on the Tranche 1 Loan, Tranche 2 Loan and Tranche 3 Loan prior to the maturity date.

If the Company prepays either the Tranche 1 Loan, Tranche 2 Loan or Tranche 3 Loan prior to their scheduled maturity date, the Company will also be required to pay prepayment fees to Perceptive equal to 6% of the principal amount of such term loan then-prepaid if prepaid on or before the first anniversary of the closing date, 5% of the principal amount of such term loan then-prepaid if prepaid after the first anniversary and on or before the second anniversary of the closing date, 4% of the principal amount of such term loan then-prepaid if prepaid after the second anniversary and on or before the third anniversary of the closing date, and 3% of the principal amount of such term loan then-prepaid if prepaid after the third anniversary and on or before the fourth anniversary of the closing date.

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 Perceptive Facility requires the Company to comply with a quarterly minimum trailing revenue covenant and a \$5 million liquidity covenant as well as customary affirmative and negative covenants.

The Perceptive 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) insolvency; (v) material cross-defaults; (vi) significant judgments, orders or decrees for payments by the Company; (vii) incorrectness of representations and warranties; (viii) significant adverse ERISA events; (ix) failure by the Company to be registered with the United States Securities and Exchange Commission in good standing; and (x) failure by the Company to maintain a valid and perfected lien on the collateral securing the borrowing.

As consideration for the Perceptive Facility, the Company agreed to issue to Perceptive warrants to purchase up to 1,462,500 shares of the Company's common stock, with a warrant exercisable into 1,125,000 shares of the Company's common stock issued on the closing date (the "Initial Warrant"). The per share exercise price for the Initial Warrant is equal to the lower of (x) the 10-day volume weighted average price of the Company's common stock on the business day immediately prior to the closing date and (y) the 10-day volume weighted average price of the common stock ended on August 31, 2024. In addition to the Initial Warrant, an additional warrant will be issued for 337,500 shares of common stock concurrently with the borrowing of the Tranche 2 Loan. The per share exercise price for the additional warrant will be equal to the exercise price of the Initial Warrant. Each warrant will be exercisable, in whole or in part, until the tenth anniversary of the applicable date of issuance.

The foregoing summary description of the Perceptive Facility for the Perceptive Facility and the Perceptive Facility does not purport to be complete and is qualified in its entirety by reference to the credit agreement for the Perceptive Facility, a copy of which is filed as Exhibit 10.3 hereto and incorporated herein by reference.

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

- 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 and international third-party and government payors;
- 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 of neurohealth disorders;
- 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.

As of June 30, 2024, there were no significant changes to our material cash requirements as set forth in our Annual Report on Form 10-K filed with the SEC on March 8, 2024.

Cash Flows

The following table sets forth a summary of our cash flows for the six months ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
	(in thousands)	
Net Cash Used in Operating Activities	\$ (16,984)	\$ (24,047)
Net Cash Used in Investing Activities	(51)	(825)
Net Cash Provided by Financing Activities	—	437
Net (Decrease) in Cash and Cash Equivalents	<u>\$ (17,035)</u>	<u>\$ (24,435)</u>

Net Cash used in Operating Activities

Net cash used in operating activities for the six months ended June 30, 2024 was \$17.0 million, consisting primarily of a net loss of \$17.7 million and an increase in net operating assets of \$5.1 million, offset by non-cash charges of \$5.8 million. The increase in net operating assets was primarily due to decreases in our accrued expenses mainly from the 2024 bonus payment accrued as of December 31, 2023, increases in our accounts receivable offset by lower inventory levels from the prior year. Non-cash charges primarily consisted of depreciation and amortization, non-cash interest expense, allowance for credit losses and share-based compensation.

Net cash used in operating activities for the six months ended June 30, 2023 was \$24.0 million, consisting primarily of a net loss of \$15.4 million and an increase in net operating assets of \$13.5 million, partially offset by non-cash charges of \$4.9 million. The increase in net operating assets was primarily due to increases in accounts receivable, the ERC and a decrease in accrued expense. Non-cash charges consisted of depreciation and amortization, non-cash interest expense and share-based compensation.

Net Cash used in Investing Activities

Net cash used in investing activities for the six months ended June 30, 2024 was \$0.1 million, which was attributable to purchases of property and equipment and capitalized software costs, partially offset by the repayment of notes receivable.

Net cash used in investing activities for the six months ended June 30, 2023 was \$0.8 million, which was attributable to purchase of property and equipment and capitalized software costs, partially offset by the repayment of notes receivable.

Net Cash provided by Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2024 was \$0. Net cash provided by financing activities for the six months ended June 30, 2023 was \$0.4 million and primarily consisted of the additional debt net of the final payment and amendment fee paid in connection with the SLR Fourth Amendment.

Indebtedness

For information regarding the SLR Facility and Perceptive Facility, refer to “Note 14. Debt” and “Note 21. Subsequent Events” in Notes to Interim Financial Statements located in Part I – FINANCIAL INFORMATION, Item 1. Financial Statements.

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 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.

We refer you to the information described in “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” section of the Company’s Annual Report on Form 10-K filed with the SEC on March 8, 2024. There have been no material changes to our market risk described therein.

We continue to monitor inflationary factors, such as increases in our cost of revenues and operating expenses that 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 the selling prices of our products do not increase as much or more than our costs increase.

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 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 Principal Financial and Accounting 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 Principal Financial and Accounting Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2024.

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2024, 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 8, 2024. There have been no material changes to the risk factors described therein.

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

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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.

Exhibit Number	Description
10.1◇	Sixth Amendment to Loan and Security Agreement, dated March 7, 2024, by and among SLR Investment Corp. (formerly known as Solar Capital Ltd.), as collateral agent, the lenders listed on the signature pages thereto, and Neuronetics, Inc. (incorporated by reference to Exhibit 10.9*◇ to the Registrant's Current Report on Form 10-K filed on March 8, 2024).
10.2◇	Secured Promissory Note and Guaranty Agreement, dated March 31, 2023, by and among TMS Neurohealth Centers Inc., as maker, Greenbrook TMS Inc. and its subsidiaries, excluding TMS Neurohealth Centers Inc., as guarantors, and Neuronetics, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 4, 2023).
10.3◇	Credit Agreement and Guaranty dated, July 25, 2024, by and among Neuronetics, Inc., the Subsidiary Guarantors from time to time parties thereto, Perceptive Credit Holdings IV, LP, and each other lender that may from time to time become a party thereto (incorporated by reference to the Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 30, 2024).
31.1*	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	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.
32.2**	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.
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.

◇ Certain portions of this exhibit have been omitted to preserve the confidentiality of such information. The Company will furnish copies of any such information to the SEC or its staff upon request.

** 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 Exchange Act 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 or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

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

NEURONETICS, INC.

(Registrant)

Date: August 12, 2024

By: /s/ Keith J. Sullivan

Name: Keith J. Sullivan

Title: President and Chief Executive Officer
(Principal Executive Officer)

Date: August 12, 2024

By: /s/ Stephen Furlong

Name: Stephen Furlong

Title: EVP, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Keith J. Sullivan, certify that:

1. I have reviewed this quarterly 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)) for the registrant 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: August 12, 2024

By: /s/ Keith J. Sullivan

Name: Keith J. Sullivan

Title: President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Stephen Furlong, certify that:

1. I have reviewed this quarterly 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: August 12, 2024

By: /s/ Stephen Furlong

Name: Stephen Furlong

Title: EVP, Chief Financial Officer and Treasurer
(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 June 30, 2024 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: August 12, 2023

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 June 30, 2024 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: August 12, 2024

By: /s/ Stephen Furlong

Name: Stephen Furlong

Title: EVP, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)
