UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 2023

OR

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

For the transition period from _____ to _____

Commission File Number**: 001-40439**

NeuroOne Medical Technologies Corporation
(Exact name of Registrant as specified in its charter)

Delaware	**27-0863354**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
7599 Anagram Drive Eden Prairie, MN	**55344**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **952-426-1383**

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:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, $0.001 par value	NMTC	The Nasdaq Stock Market LLC

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 (section 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	☐	Non-accelerated filer	☒
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 ☒

The number of outstanding shares of the registrant's common stock as of August 10, 2023 was 23,919,184.

NEUROONE MEDICAL TECHNOLOGIES CORPORATION
FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

NeuroOne Medical Technologies Corporation
Condensed Balance Sheets

	June 30, 2023 (unaudited)	September 30, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 3,083,458	$ 8,160,329
Short-term investments	—	2,981,010
Accounts receivable	—	33,237
Inventory	1,516,527	704,538
Prepaids and other assets	278,786	296,649
Total current assets	4,878,771	12,175,763
Intangible assets, net	95,156	111,892
Right-of-use asset	197,324	181,355
Property and equipment, net	586,873	353,599
Total assets	$ 5,758,124	$ 12,822,609
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 958,811	$ 927,662
Accrued expenses and other liabilities	789,097	715,839
Deferred revenue	—	1,455,188
Total current liabilities	1,747,908	3,098,689
Operating lease liability, long term	88,918	119,556
Total liabilities	1,836,826	3,218,245
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized as of June 30, 2023 and September 30, 2022; no shares issued or outstanding as of June 30, 2023 and September 30, 2022.	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized as of June 30, 2023 and September 30, 2022; 17,862,162 and 16,216,540 shares issued and outstanding as of June 30, 2023 and September 30, 2022, respectively.	17,862	16,217
Additional paid-in capital	63,454,618	60,414,959
Accumulated deficit	(59,551,182)	(50,826,812)
Total stockholders' equity	3,921,298	9,604,364
Total liabilities and stockholders' equity	$ 5,758,124	$ 12,822,609

See accompanying notes to condensed financial statements

NeuroOne Medical Technologies Corporation
Condensed Statements of Operations
(unaudited)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2023	2022	2023	2022
Product revenue	$ 629,906	$ 32,049	$ 1,210,661	$ 102,381
Cost of product revenue	386,240	38,462	947,799	158,113
Product gross profit (loss)	243,666	(6,413)	262,862	(55,732)
Collaborations revenue	—	—	1,455,188	6,374
Operating expenses:				
Selling, general and administrative	1,862,389	1,529,670	5,347,234	5,090,018
Research and development	1,891,512	1,225,351	5,161,322	3,491,193
Total operating expenses	3,753,901	2,755,021	10,508,556	8,581,211
Loss from operations	(3,510,235)	(2,761,434)	(8,790,506)	(8,630,569)
Other income, net	41,462	1,707	66,136	5,300
Loss before income taxes	(3,468,773)	(2,759,727)	(8,724,370)	(8,625,269)
Provision for income taxes	—	—	—	—
Net loss	$(3,468,773)	$(2,759,727)	$(8,724,370)	$(8,625,269)
Net loss per share:				
Basic and diluted	$ (0.20)	$ (0.17)	$ (0.52)	$ (0.54)
Number of shares used in per share calculations:				
Basic and diluted	17,578,871	16,193,442	16,740,546	15,927,734

See accompanying notes to condensed financial statements

NeuroOne Medical Technologies Corporation
Condensed Statements of Changes in Stockholders' Equity
(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at September 30, 2021	12,010,019	$ 12,010	$ 47,369,090	$ (40,827,199)	$ 6,553,901
Issuance of common stock in connection with public offering	4,172,057	4,172	13,346,410	—	13,350,582
Issuance cost in connection with public offering	—	—	(1,352,280)	—	(1,352,280)
Stock-based compensation	—	—	203,072	—	203,072
Issuance of common stock upon vesting of restricted stock units	5,646	6	(6)	—	—
Net loss	—	—	—	(2,807,475)	(2,807,475)
Balance at December 31, 2021	16,187,722	16,188	59,566,286	(43,634,674)	15,947,800
Stock-based compensation	—	—	232,716	—	232,716
Issuance of common stock upon vesting of restricted stock units	3,447	3	(3)	—	—
Net loss	—	—	—	(3,058,067)	(3,058,067)
Balance at March 31, 2022	16,191,169	16,191	59,798,999	(46,692,741)	13,122,449
Stock-based compensation	—	—	255,548	—	255,548
Issuance of common stock upon vesting of restricted stock units	3,447	4	(4)	—	—
Net loss	—	—	—	(2,759,727)	(2,759,727)
Balance at June 30, 2022	16,194,616	$ 16,195	$ 60,054,543	$ (49,452,468)	$ 10,618,270
Balance at September 30, 2022	16,216,540	$ 16,217	$ 60,414,959	$ (50,826,812)	$ 9,604,364
Stock-based compensation	—	—	300,181	—	300,181
Issuance of common stock upon vesting of restricted stock units	21,924	22	(22)	—	—
Net loss	—	—	—	(1,732,769)	(1,732,769)
Balance at December 31, 2022	16,238,464	16,239	60,715,118	(52,559,581)	8,171,776
Issuance of common stock in connection with at-the-market offering program	516,484	516	927,741	—	928,257
Issuance costs in connection with the at-the-market offering program	—	—	(183,359)	—	(183,359)
Stock-based compensation	—	—	237,628	—	237,628
Share repurchases for the payment of employee taxes	(67,109)	(67)	(98,583)	—	(98,650)
Issuance of common stock upon vesting of restricted stock units	199,899	200	(200)	—	—
Net loss			—	(3,522,828)	(3,522,828)
Balance at March 31, 2023	16,887,738	16,888	61,598,345	(56,082,409)	5,532,824
Issuance of common stock in connection with at-the-market offering program	923,193	923	1,623,476	—	1,624,399
Issuance costs in connection with the at-the-market offering program	—	—	(51,366)	—	(51,366)
Stock-based compensation	—	—	296,402	—	296,402
Share repurchases for the payment of employee taxes	(8,385)	(8)	(12,180)	—	(12,188)
Issuance of common stock upon vesting of restricted stock units	59,616	59	(59)	—	—
Net loss	—	—	—	(3,468,773)	(3,468,773)
Balance at June 30, 2023	17,862,162	$ 17,862	$ 63,454,618	$ (59,551,182)	$ 3,921,298

See accompanying notes to condensed financial statements

NeuroOne Medical Technologies Corporation
Condensed Statements of Cash Flows
(unaudited)

	For the Nine Months Ended June 30,	
	2023	**2022**
Operating activities		
Net loss	$(8,724,370)	$(8,625,269)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization and depreciation	136,757	85,198
Stock-based compensation	834,211	691,336
Amortization of discounts and premiums on short-term investments	(45,571)	—
Non-cash lease expense	81,567	80,020
Change in assets and liabilities:		
Accounts receivable	33,237	48,336
Inventory	(811,989)	(355,998)
Prepaids and other assets	85,022	(145,462)
Accounts payable	(62,808)	(87,197)
Accrued expenses, deferred revenue, operating leases and other liabilities	(1,510,104)	(228,315)
Net cash used in operating activities	(9,984,048)	(8,537,351)
Investing activities		
Purchases of short-term investments	(1,473,419)	—
Maturities of short-term investments	4,500,000	—
Purchase of property and equipment	(326,497)	(209,044)
Net cash provided by (used in) investing activities	2,700,084	(209,044)
Financing activities		
Proceeds from issuance of common stock in connection with at-the-market offering program and public offering	2,552,656	13,350,582
Issuance costs related to at-the-market offering program and public offering	(234,725)	(1,327,300)
Share repurchases for the payment of employee taxes	(110,838)	—
Net cash provided by financing activities	2,207,093	12,023,282
Net (decrease) increase in cash and cash equivalents	(5,076,871)	3,276,887
Cash and cash equivalents at beginning of period	8,160,329	6,901,346
Cash and cash equivalents at end of period	$ 3,083,458	$10,178,233
Supplemental non-cash financing and investing transactions:		
Reclass of deferred offering costs to additional paid-in capital in connection with public offering	$ —	$ 24,980
Modification of right-of-use asset and associated lease liability	$ 97,536	$ —
Unpaid deferred issuance costs (offset in prepaids and other assets)	$ 67,159	$ —
Purchased property and equipment in accounts payable	$ 26,798	$ —

See accompanying notes to condensed financial statements

NeuroOne Medical Technologies Corporation
Notes to Condensed Financial Statements
(unaudited)

NOTE 1 – Description of Business and Basis of Presentation

NeuroOne Medical Technologies Corporation (the "Company" or "NeuroOne"), a Delaware corporation, is an early-stage medical technology company developing comprehensive neuromodulation electroencephalogram ("cEEG") and stereoelectrocencephalography ("sEEG") recording, monitoring, ablation, drug delivery and brain stimulation solutions to diagnose and treat patients with epilepsy, Parkinson's disease, dystonia, essential tremors, chronic pain due to failed back surgeries and other related neurological disorders.

The Company received 510(k) clearance from the United States ("U.S.") Food and Drug Administration ("FDA") for its Evo cortical electrode technology in November 2019 and in October 2022, the Company received 510(k) from the FDA clearance for its Evo sEEG electrode technology for temporary (less than 30 days) use with recording, monitoring, and stimulation equipment for the recording, monitoring, and stimulation of electrical signals at the subsurface level of the brain. To date, the Company has had limited commercial sales.

The Company is based in Eden Prairie, Minnesota.

Global Economic Conditions

Generally, worldwide economic conditions remain uncertain, particularly due to the conflict between Russia and Ukraine, disruptions in the banking system and financial markets, lingering effects of the COVID-19 pandemic and increased inflation. The general economic and capital market conditions both in the U.S. and worldwide, have been volatile in the past and at times have adversely affected the Company's access to capital and increased the cost of capital. The capital and credit markets may not be available to support future capital raising activity on favorable terms or at all. If economic conditions continue to decline, the Company's future cost of equity or debt capital and access to the capital markets could be adversely affected.

The COVID-19 pandemic that began in late 2019 introduced significant volatility to the global economy, disrupted supply chains and had a widespread adverse effect on the financial markets. Additionally, the Company's operating results could be materially impacted by changes in the overall macroeconomic environment and other economic factors. Changes in economic conditions, supply chain constraints, logistics challenges, labor shortages, the conflict in Ukraine, disruptions in the banking system and financial markets, and steps taken by governments and central banks, particularly in response to the COVID-19 pandemic as well as other stimulus and spending programs, have led to higher inflation, which has led to an increase in costs and has caused changes in fiscal and monetary policy, including increased interest rates.

Basis of presentation

The accompanying unaudited condensed financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The condensed financial statements may not include all disclosures required by U.S. GAAP; however, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended September 30, 2022 included in the Annual Report on Form 10-K. The condensed balance sheet at September 30, 2022 was derived from the audited financial statements of the Company.

In the opinion of management, all adjustments, consisting of only normal recurring adjustments that are necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future periods.

NOTE 2 – Going Concern

The accompanying condensed financial statements have been prepared on the basis that the Company will continue as a going concern. The Company has incurred losses since inception, negative cash flows from operations, and an accumulated deficit of $59.6 million as of June 30, 2023. To date, the Company's revenues have not been sufficient to cover its full operating costs, and as such, has been dependent on funding operations through the issuance of debt and sale of equity securities. With the July 2023 Public Offering (see Note 13 - Subsequent Events), the Company has adequate liquidity to fund its operations through March 31, 2024. The raising of additional funds is not solely within the control of the Company. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this condition. If the Company is unable to raise additional funds, or the Company's anticipated operating results are not achieved, management believes planned expenditures may need to be reduced in order to extend the time period that existing resources can fund the Company's operations. The Company intends to fund ongoing activities by utilizing its current cash and cash equivalents on hand, from product and collaborations revenue and by raising additional capital through equity or debt financings. If management is unable to obtain the necessary capital, it may have a material adverse effect on the operations of the Company and the development of its technology, or the Company may have to cease operations altogether.

NOTE 3 – Summary of Significant Accounting Policies

Management's Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original contractual maturity on date of purchase of less than or equal to three months to be classified and presented as cash equivalents on the Balance Sheets. Cash equivalents are stated at cost, which approximates fair value. The Company's cash and cash equivalents may include demand deposit accounts with large financial institutions, institutional money market funds, U.S. Treasury securities, and corporate notes and bonds. The Company monitors the creditworthiness of the financial institutions, institutional money market funds, and corporations in which the Company invests its surplus funds. The Company has experienced no credit losses from its cash and cash equivalent investments.

Short-Term Investments

The Company has invested its excess cash in U.S. Treasury securities and highly rated corporate securities in prior periods. The Company has held these investments to maturity. Securities with original maturity dates of more than three months were reported as held-to-maturity investments and were recorded at amortized cost, which approximated fair value due to the negligible risk of changes in value due to interest rates. All investments held as September 30, 2022 had contractual maturities of less than one year. The were no short-term investments outstanding as of June 30, 2023. The amortized cost and estimated fair values of the Company's investments as of September 30, 2022 were as follows:

	September 30, 2022			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Short-term:				
U.S. treasury and corporate notes	$ 2,981,010	$ —	$ 2,870	$ 2,978,140
Total	$ 2,981,010	$ —	$ 2,870	$ 2,978,140

Revenue Recognition

The Company entered into a development and distribution agreement which has current and future revenue recognition implications. See "Note 7 - Zimmer Development Agreement."

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Company performs the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Account Standards Codification ("ASC") Topic 606. ("ASC 606"). Performance obligations may include license rights, development services, and services associated with regulatory submission and approval processes. Significant management judgment is required to determine the level of effort required under an arrangement and the period over which the Company expects to complete its performance obligations under the arrangement. If the Company cannot reasonably estimate when its performance obligations are either completed or become inconsequential, then revenue recognition is deferred until the Company can reasonably make such estimates. Revenue is then recognized over the remaining estimated period of performance using the cumulative catch-up method.

Product Revenue

Revenues from product sales are recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. At the inception of each customer contract, performance obligations are identified and the total transaction price is allocated to the performance obligations.

Cost of Product Revenue

Cost of product revenue consists of the manufacturing and materials costs incurred by the Company's third-party contract manufacturer in connection with the Company's strip and grid cortical electrodes (the "Strip/Grid Products"), depth electrodes ("sEEG Products) and outside supplier materials costs in connection with the electrode cable assembly products ("Electrode Cable Assembly Products"). In addition, cost of product revenue includes royalty fees incurred in connection with the Company's license agreements.

Collaborations Revenue

As part of the accounting for collaboration arrangements, the Company must develop assumptions that require judgment to determine the stand-alone selling price of each performance obligation identified in the contract. The Company uses key assumptions to determine the stand-alone selling price, which may include forecasted revenues, development timelines, reimbursement rates for personnel costs, discount rates and probabilities of technical and regulatory success. The Company allocates the total transaction price to each performance obligation based on the estimated relative standalone selling prices of the promised goods or service underlying each performance obligation.

Licenses of intellectual property: If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from non-refundable, up-front fees allocated to the license when the license is transferred to the customer, and the customer can use and benefit from the license. For licenses that are bundled with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Milestone payments: At the inception of each arrangement that includes milestone payments, the Company evaluates whether the milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the value of the associated milestone (such as a regulatory submission) is included in the transaction price. Milestone payments that are not within the control of the Company, such as approvals from regulators, are not considered probable of being achieved until those approvals are received. When the Company's assessment of probability of achievement changes and variable consideration becomes probable, any additional estimated consideration is allocated to each performance obligation based on the estimated relative standalone selling prices of the promised goods or service underlying each performance obligation and recorded in collaborations revenues based upon when the customer obtains control of each element.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (a) when the related sales occur, or (b) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Fair Value of Financial Instruments

The Company's accounting for fair value measurements of assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring or nonrecurring basis adheres to the Financial Accounting Standards Board ("FASB") fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the Company at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

As of June 30, 2023 and September 30, 2022, the fair values of cash, cash equivalents, short-term investments, accounts receivable, inventory, prepaids and other assets, accounts payable and accrued expenses and other liabilities approximated their carrying values because of the short-term nature of these assets or liabilities.

There were no transfers between fair value hierarchy levels during the three or nine months ended June 30, 2023 and 2022.

Intellectual Property

The Company has entered into two licensing agreements with major research institutions, which allow for access to certain patented technology and know-how. Payments under those agreements are capitalized and amortized to general and administrative expense over the expected useful life of the acquired technology.

Property and Equipment

Property and equipment is recorded at cost and reduced by accumulated depreciation. Depreciation expense is recognized over the estimated useful lives of the assets using the straight-line method. The estimated useful life for equipment and furniture ranges from three to seven years and three years for software. Tangible assets acquired for research and development activities and that have alternative use are capitalized over the useful life of the acquired asset. Estimated useful lives are periodically reviewed, and, when appropriate, changes are made prospectively. Software purchased for internal use consists primarily of amounts paid for perpetual licenses to third-party software providers and installation costs. When certain events or changes in operating conditions occur, asset lives may be adjusted and an impairment assessment may be performed on the recoverability of the carrying amounts. Maintenance and repairs are charged directly to expense as incurred.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets, which consist of licensed intellectual property, property and equipment and right-of-use assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The Company assesses the recoverability of long-lived assets by determining whether or not the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Allowances for Doubtful Accounts

The Company records a provision for doubtful accounts, when appropriate, based on historical experience and a detailed assessment of the collectability of its accounts receivable. In estimating the allowance for doubtful accounts, the Company considers, among other factors, the aging of the accounts receivable, its historical write-offs, the credit worthiness of each customer, and general economic conditions. Account balances are charged off against the allowance when the Company believes that it is probable that the receivable will not be recovered. Actual write-offs may be in excess of the Company's estimated allowance.

Inventories

Inventories are stated at the lower of cost (using the first-in, first-out "FIFO" method) or net realizable value. The Company calculates inventory valuation adjustments for excess and obsolete inventory, when appropriate, based on current inventory levels, movement, expected useful lives, and estimated future demand of the products and spare parts. The Company's inventory is currently comprised of Strip/Grid Products, sEEG and electrode cable assembly work-in-process and finished good product. The Strip/Grid Products and sEEG Products are produced by a third-party contract manufacturer and the Electrode Cable Assembly Products are obtained from outside suppliers.

Research and Development Costs

Research and development costs are charged to expense as incurred. Research and development expenses may include costs incurred in performing research and development activities, including clinical trial costs, manufacturing costs for both clinical and pre-clinical materials as well as other contracted services, license fees, and other external costs. Non-refundable advance payments for goods and services that will be used in future research and development activities are expensed when the activity is performed or when the goods have been received, rather than when payment is made, in accordance with ASC 730, *Research and Development*.

Selling, General and Administrative

Selling, general and administrative expenses consist primarily of personnel-related costs including stock-based compensation for personnel in functions not directly associated with research and development activities. Other significant costs include legal and litigation costs relating to corporate matters, intellectual property costs, professional fees for consultants assisting with regulatory, clinical, product development, financial matters, and sales and marketing in connection with the commercial sales of the Company's products.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the provisions of ASC 718, *Compensation — Stock Compensation* ("ASC 718"). Accordingly, compensation costs related to equity instruments granted are recognized at the grant-date fair value. The Company records forfeitures when they occur. Stock-based compensation arrangements to non-employees are accounted for in accordance with the applicable provisions of ASC 718.

Income Taxes

For the Company, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Net Loss Per Share

For the Company, basic loss per share of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period.

Diluted earnings or loss per share of common stock is computed similarly to basic earnings or loss per share except the weighted average shares outstanding are increased to include additional shares from the assumed exercise of any common stock equivalents, if dilutive. The Company's warrants, stock options, and restricted stock units while outstanding are considered common stock equivalents for this purpose. Diluted earnings or loss per share of common stock is computed utilizing the treasury method for the warrants, stock options and restricted stock units. No incremental common stock equivalents were included in calculating diluted loss per share because such inclusion would be anti-dilutive given the net loss reported for the three and nine months ended June 30, 2023 and 2022.

The following potential common shares were not considered in the computation of diluted net loss per share as their effect would have been anti-dilutive for the three and nine months ended June 30, 2023 and 2022:

	2023	2022
Warrants	6,407,495	6,753,444
Stock options	1,708,906	1,245,582
Restricted stock units	431,049	443,670

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, "*Financial Instruments – Credit Losses*". The ASU sets forth a "current expected credit loss" ("CECL") model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. Recently, the FASB issued the final ASU to delay adoption for smaller reporting companies to fiscal years beginning after December 15, 2022. The Company does not expect that the adoption of this ASU will have a material impact on its financial statements.

In August 2020, FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which, among other things, provides guidance on how to account for contracts on an entity's own equity. This ASU eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, this ASU modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted EPS computation. The amendments in this ASU are effective for smaller reporting companies as defined by the SEC for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. The Company adopted ASU 2020-06 effective October 1, 2022 and the ASU did not have a material impact to its financial statements.

NOTE 4 - Commitments and Contingencies

WARF License Agreement

The Company has entered into an exclusive start-up company license agreement with the Wisconsin Alumni Research Foundation ("WARF") for WARF's neural probe array and thin film micro electrode technology (the "WARF License").

The WARF License grants to the Company an exclusive license to make, use and sell, in the United States only, products that employ certain licensed patents for a neural probe array or thin-film micro electrode array and method. The Company agreed to pay WARF a royalty equal to a single-digit percentage of our product sales pursuant to the WARF License, with a minimum annual royalty payment of $50,000 for 2020, $100,000 for 2021 and $150,000 for 2022 and each calendar year thereafter that the WARF License is in effect. If the Company or any of its sublicensees contest the validity of any licensed patent, the royalty rate will be doubled during the pendency of such contest and, if the contested patent is found to be valid and would be infringed by the Company if not for the WARF License, the royalty rate will be tripled for the remaining term of the WARF License.

WARF may terminate the WARF License on 30 days' written notice if we default on the payments of amounts due to WARF or fail to timely submit development reports, actively pursue our development plan or breach any other covenant in the WARF License and fail to remedy such default in 90 days or in the event of certain bankruptcy events involving us. The WARF License otherwise expires by its terms on the date that no valid claims on the patents licensed thereunder remain. The Company expects the latest expiration of a licensed patent to occur in 2030. During the three months ended June 30, 2023 and 2022, $37,500 in royalty fees were incurred related to the WARF License during each of these periods. During the nine months ended June 30, 2023 and 2022, $112,500 and $100,000 in royalty fees were incurred related to the WARF License, respectively. The royalty fees were reflected as a component of cost of product revenue.

Mayo Agreement

The Company has an exclusive license and development agreement with the Mayo Foundation for Medical Education and Research ("Mayo") related to certain intellectual property and development services for thin film micro electrode technology ("Mayo Agreement"). If the Company is successful in obtaining regulatory approval, the Company is to pay royalties to Mayo based on a percentage of net sales of products of the licensed technology through the term of the Mayo Agreement, set to expire May 25, 2037. During the three months ended June 30, 2023 and 2022, $5,727 and $962 in royalty fees were incurred related to the Mayo Agreement, respectively. During the nine months ended June 30, 2023 and 2022, $6,417 and $2,798 in royalty fees were incurred related to the Mayo Agreement, respectively. The royalty fees were reflected as a component of cost of product revenue.

Facility Leases

Headquarters Lease

On October 7, 2019, the Company entered into a non-cancellable lease agreement (the "Lease") with certain landlords (together, the "Landlord") pursuant to which the Company has agreed to lease office space located at 7599 Anagram Drive, Eden Prairie, Minnesota (the "Premises"). The Company took possession of the Premises on November 1, 2019, with the term of the Lease ending 65 months after such date, unless terminated earlier (the "Term"). The initial base rent for the Premises is $6,410 per month for the first 17 months, increasing to $7,076 per month by the end of the Term. In addition, as long as the Company is not in default under the Lease, the Company shall be entitled to an abatement of its base rent for the first 5 months. In addition, the Company will pay its pro rata share of the Landlord's annual operating expenses associated with the premises, calculated as set forth in the Lease of which the Company is entitled to an abatement of these operating expense for the first 3 months.

Los Gatos Lease

On July 1, 2021, the Company entered into a non-cancellable facility lease (the "Los Gatos Lease"), pursuant to which the Company agreed to rent office space for its research and development operations located at 718 University Avenue, Suite #111, Los Gatos, California. The facility space under the Los Gatos Lease is approximately 1,162 square feet. The Company took possession of the office space on July 2, 2021. The initial monthly rent under the Los Gatos Lease was approximately $4,241. On November 4, 2022, the Los Gatos Lease was extended for an additional two years to December 31, 2024. The rent under the extended Los Gatos Lease ranges from $4,453 to $4,632 per month beginning on January 1, 2023.

During the three and nine months ended June 30, 2023, rent expense associated with the facility leases amounted to $43,053 and $128,580, respectively. During the three and nine months ended June 30, 2022, rent expense associated with the facility leases amounted to $42,185 and $128,315, respectively

Supplemental cash flow information related to the operating leases was as follows:

	For the Nine Months Ended June 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liability:		
Operating cash flows from operating leases	$ 100,562	$ 97,799
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 97,536	$ —

Supplemental balance sheet information related to the operating leases was as follows:

	As of June 30, 2023	As of September 30, 2022
Right-of-use assets	$ 197,324	$ 181,355
Lease liabilities	$ 214,482	$ 202,895
Weighted average remaining lease term (years)	1.7	2.4
Weighted average discount rate	7.8%	6.9%

Maturity of the lease liabilities was as follows:

Calendar Year	As of June 30, 2023
2023	$ 68,139
2024	139,969
2025	21,227
Total lease payments	229,335
Less imputed interest	(14,853)
Total	214,482
Short-term portion in accrued expenses and other liabilities	(125,564)
Long-term portion	$ 88,918

Other

In the ordinary course of business, from time to time, the Company may be subject to a broad range of claims and legal proceedings that relate to contractual allegations, patent infringement and other claims. The Company establishes accruals when applicable for matters and commitments which it believes losses are probable and can be reasonably estimated. To date, no loss contingency for such matters and potential commitments have been recorded. Although it is not possible to predict with certainty the outcome of these matters or potential commitments, the Company is of the opinion that the ultimate resolution of these matters and potential commitments will not have a material adverse effect on its results of operations or financial position.

NOTE 5 – Supplemental Balance Sheet Information

Prepaid and other assets consisted of the following:

	As of June 30, 2023	As of September 30, 2022
Prepaid expenses	$ 211,627	$ 296,649
Deferred offering costs	67,159	—
Total	$ 278,786	$ 296,649

As of June 30, 2023, the Company incurred deferred issuance costs in the amount of $67,159 related to a pending financing. See Note 13 - Subsequent Events.

Inventory

Inventory consisted of the following:

	As of June 30, 2023	As of September 30, 2022
Work-in-process	$ 1,323,508	$ 630,570
Finished goods	193,019	73,968
Total	$ 1,516,527	$ 704,538

Intangibles

Intangible assets rollforward is as follows:

	Useful Life	
Net Intangibles, September 30, 2022	12-13 years	$ 111,892
Less: amortization		(16,736)
Net Intangibles, June 30, 2023		$ 95,156

Amortization expense was $5,578 and $16,736 for the three and nine months ended June 30, 2023, respectively, and $5,578 and $16,736 for the three and nine months ended June 30, 2022, respectively.

Property and Equipment, Net

Property and equipment held for use by category are presented in the following table:

	As of June 30, 2023	As of September 30, 2022
Equipment and furniture	$ 891,356	$ 538,061
Software	—	1,895
Total property and equipment	891,356	539,956
Less accumulated depreciation	(304,483)	(186,357)
Property and equipment, net	$ 586,873	$ 353,599

Depreciation expense was $51,380 and $120,021 for the three months and nine months ended June 30, 2023, respectively, and $25,928 and $68,462 for the three months and nine months ended June 30, 2022, respectively. Software assets were fully depreciated as of September 30, 2022 and were written-off during the third quarter of 2023.

NOTE 6 - Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following:

	As of June 30, 2023	As of September 30, 2022
Accrued payroll	$ 582,806	$ 521,368
Operating lease liability, short term	125,564	83,339
Royalty payments	80,727	111,132
Total	$ 789,097	$ 715,839

NOTE 7 – Zimmer Development Agreement

On July 20, 2020, the Company entered into an exclusive development and distribution agreement (as amended from time to time, the "Zimmer Development Agreement") with Zimmer, Inc. ("Zimmer"), pursuant to which the Company granted Zimmer exclusive global rights to distribute the Strip/Grid Products and electrode cable assembly products (the "Electrode Cable Assembly Products"). Additionally, the Company granted Zimmer the exclusive right and license to distribute certain depth electrodes developed by the Company ("sEEG Products", and together with the Strip/Grid Products and Electrode Cable Assembly Products, the "Products"). The parties have agreed to collaborate with respect to development activities under the Zimmer Development Agreement through a joint development committee composed of an equal number of representatives of Zimmer and the Company.

Under the terms of the Zimmer Development Agreement, the Company is responsible for all costs and expenses related to developing the Products, and Zimmer is responsible for all costs and expenses related to the commercialization of the Products. In addition to the Zimmer Development Agreement, Zimmer and the Company have entered into a Manufacturing and Supply Agreement (the "MS Agreement") and a supplier quality agreement (the "Quality Agreement") with respect to the manufacturing and supply of the Products.

Except as otherwise provided in the Zimmer Development Agreement, the Company is responsible for performing all development activities, including non-clinical and clinical studies directed at obtaining regulatory approval of each Product. Zimmer has agreed to use commercially reasonable efforts to promote, market and sell each Product following the "Product Availability Date" (as defined in the Zimmer Development Agreement) for such Product.

Pursuant to the Zimmer Development Agreement, Zimmer made an upfront initial exclusivity fee payment of $2.0 million (the "Initial Exclusivity Fee") to the Company in fiscal year 2020.

On August 2, 2022, the Company entered into a Third Amendment to the Zimmer Development Agreement (the "Third Amendment") with Zimmer. Pursuant to the terms and conditions of the Third Amendment, Zimmer made a $3.5 million payment to the Company. In consideration of the mutual covenants and agreements contained in the Zimmer Development Agreement, the fee and milestone payment provisions in the Zimmer Development Agreement were replaced with the following below:

- $1.5 million for the sEEG Exclusivity Maintenance Fee; and
- $2.0 million for satisfaction of each of the milestone events related to the design of sEEG products set forth in the Zimmer Development Agreement even though the satisfaction was after the deadlines originally identified.

In addition, in connection with the Third Amendment, the Company issued Zimmer a warrant to purchase common stock (the "2022 Zimmer Warrant"). The 2022 Zimmer Warrant is exercisable for up to an aggregate of 350,000 shares of the Company's common stock. The 2022 Zimmer Warrant has an exercise price of $3.00 per share, will be exercisable commencing six months from the issuance date, and will expire on August 2, 2027. The fair value of the 2022 Zimmer Warrant of $0.1 million was based on the Black-Scholes pricing model. Input assumptions used were as follows: a risk-free interest rate of 2.9%; expected volatility of 53.5%; expected life of 5 years; expected dividend yield of 0%; and the underlying fair market of the common stock. The 2022 Zimmer Warrant was classified in stockholders' equity as the number of shares were fixed and determinable, no cash settlement was required and no other provisions precluded equity treatment.

The Zimmer Development Agreement will expire on the tenth anniversary of the date of the first commercial sale of the last Products to achieve a first commercial sale, unless terminated earlier pursuant to its terms. Either party may terminate the Zimmer Development Agreement (x) with written notice for the other party's material breach following a cure period or (y) if the other party becomes subject to certain insolvency proceedings. In addition, Zimmer may terminate the Zimmer Development Agreement for any reason with 90 days' written notice, and the Company may terminate the Zimmer Development Agreement if Zimmer acquires or directly or indirectly owns a controlling interest in certain competitors of the Company. The license rights granted to Zimmer under the Strip/Grid Distribution License and sEEG Distribution License shall be exclusive from the effective date of the Third Amendment until the end of the term.

The Zimmer Development Agreement and Third Amendment were accounted for under the provisions of ASC 606. In accordance with the provisions under ASC 606, the Company identified five performance obligations under the Zimmer Development Agreement and Third Amendment: (1) the Company's obligation to grant Zimmer access to its intellectual property; (2) completion of sEEG Product development; (3) completion of Strip/Grid Product development; (4) the provision of sEEG exclusivity maintenance; and (5) completion of sEEG design modifications as requested by Zimmer. All performance obligations under the Zimmer Development Agreement and Third Amendment were met as of December 31, 2022.

The aggregate transaction price associated with the Zimmer Development Agreement and Third Amendment was $5.4 million comprising the Initial Exclusivity Fee of $2.0 million and the $3.5 million payment under the Third Amendment, less the fair value of the 2022 Zimmer Warrant of $0.1 million. The transaction price was allocated between performance obligations based on their relative standalone selling prices. The Company used a market based valuation approach and an expected cost plus margin approach with regard to estimating the standalone selling price for the performance obligations.

In October 2022, the Company received 510(k) clearance from the FDA for its Evo sEEG electrode technology for temporary (less than 30 days) use with recording, monitoring, and stimulation equipment for the recording, monitoring, and stimulation of electrical signals at the subsurface level of the brain. Accordingly, the Company recognized revenue in the amount of zero and $1,455,188 during the three and nine months ended June 30, 2023, respectively, related to the completion of the sEEG exclusivity maintenance milestone. During the three and nine months ended June 30, 2022, the Company recognized revenue in the amount of zero and $6,374 related to sEEG Product development, respectively.

A reconciliation of the closing balance of deferred revenue related to the Zimmer Development Agreement and Third Amendment is as follows during the nine months ended as of June 30, 2023 and 2022:

	2023	2022
Deferred Revenue		
Balance as of beginning of period	$ 1,455,188	$ 8,622
Revenue recognized	(1,455,188)	(6,374)
Balance as of end of period	$ —	$ 2,248

Product Revenue

Product revenue related to its Strip/Grid Products, sEEG Products and Electrode Cable Assembly Products. Product revenue recognized during the three and nine months ended June 30, 2023 was $629,906 and $1,210,661, respectively. Product revenue recognized during the three and nine months ended June 30, 2022 was $32,049 and $102,381, respectively.

Advertising Expense

Advertising expense is charged to selling, general and administrative expenses during the period that it is incurred. Total advertising expense amounted to $49,492 and $156,131 for the three and nine months ended June 30, 2023, respectively. Total advertising expense amounted to $43,479 and $218,011 for the three and nine months ended June 30, 2022, respectively.

NOTE 8 – Stock-Based Compensation

During the three and nine months ended June 30, 2023 and 2022, stock-based compensation expense related to stock-based awards was included in selling, general and administrative and research and development costs as follows in the accompanying condensed statements of operations.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Selling, general and administrative	$ 237,007	$ 211,472	$ 691,939	$ 569,347
Research and development	59,395	44,076	142,272	121,989
Total stock-based compensation expense	$ 296,402	$ 255,548	$ 834,211	$ 691,336

Stock Options

During the three months ended June 30, 2023 and 2022, under the 2017 Equity Incentive Plan (the "2017 Plan"), the Company granted 339,000 and 88,890 stock options, respectively, to its board of directors, officers and employees. During the nine months ended June 30, 2023 and 2022, the Company granted 469,512 and 150,690, respectively, to its board of directors, officers, employees and consultants. Vesting generally occurs over an immediate to four-year period based on a time of service condition although vesting acceleration is provided under one grant in the event that a certain milestone is met. The grant date fair value of the grants issued during the three months ended June 30, 2023 and 2022 was $0.92 and $0.57 per share, respectively. The grant date fair value of the grants issued during the nine months ended June 30, 2023 and 2022 was $0.88 and $0.76 per share, respectively.

The total expense for the three months ended June 30, 2023 and 2022 related to stock options was $158,528 and $137,109, respectively. The total expense for the nine months ended June 30, 2023 and 2022 related to stock options was $482,276 and $444,891, respectively. The total number of stock options outstanding as of June 30, 2023 and September 30, 2022 was 1,708,906 and 1,239,915, respectively.

The weighted-average assumptions used in the Black-Scholes option-pricing model are as follows for the stock options granted during the three and nine months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Expected stock price volatility	58.1%	53.5%	57.4%	53.5%
Expected life of options (years)	6.1	5.3	5.8	5.6
Expected dividend yield	0%	0%	0%	0%
Risk free interest rate	3.6%	2.8%	3.7%	2.3%

During the three months ended June 30, 2023 and 2022, 69,947 and 64,841 stock options vested, respectively, and 521 and 5,167 stock options were forfeited during these periods, respectively. During the nine months ended June 30, 2023 and 2022, 282,172 and 265,901 stock options vested, respectively, and 521 and 27,668 stock options were forfeited during these periods, respectively. During the three and nine months ended June 30, 2023 and 2022, no options were exercised.

Restricted Stock Units

During the three and nine months ended June 30, 2023, the Company granted an aggregate of 249,000 and 310,728 restricted stock units (“RSUs”) to its board of directors under the 2017 Plan, respectively. The weighted average grant date fair value of the RSUs granted during the three and nine months ended June 30, 2023 was $1.59 and $1.60 per unit, respectively. The RSUs vest over a one to three year period with some of the RSUs vesting ratably on a monthly and others vesting at 50 percent on the first anniversary of the grant date with the remaining RSUs vesting in equal monthly installments on the last day of each month over 24 months, subject to the recipient’ s continued service on such dates.

During the three and nine months ended June 30, 2022, the Company granted an aggregate of 87,720 and 443,670 RSUs to certain directors, officers and employees under the 2017 Plan. The weighted average grant date fair value of the RSUs granted during the three and nine months ended June 30, 2022 was $1.14 and $1.91 per unit, respectively. The RSUs vest over a one to three year period with some of the RSUs vesting ratably on a monthly and others vesting at 50 percent on the first anniversary of the grant date with the remaining RSUs vesting in equal monthly installments on the last day of each month over 24 months, subject to the recipient’ s continued service on such dates.

During the three months ended June 30, 2023 and 2022, 52,299 and 9,606 RSUs vested, respectively, and no RSUs were forfeited during these periods. During the nine months ended June 30, 2023 and 2022, 294,109 and 18,694 RSUs vested, respectively, and no RSUs were forfeited during these periods. The total expense for the three months ended June 30, 2023 and 2022 related to these RSUs was $137,874 and $118,439, respectively. The total expense for the nine months ended June 30, 2023 and 2022 related to these RSUs was $351,935 and $246,445, respectively.

Inducement Plan

On October 4, 2021, the Company adopted the NeuroOne Medical Technologies Corporation 2021 Inducement Plan (the “Inducement Plan”), pursuant to which the Company reserved 420,350 shares of its common stock to be used exclusively for grants of awards to individuals who were not previously employees or directors of the Company, as an inducement material to the individual’ s entry into employment with the Company within the meaning of Rule 5635(c)(4) of the Nasdaq Listing Rules. The Inducement Plan was approved by the Company’ s Board of Directors without stockholder approval in accordance with such rule.

2017 Plan Evergreen Provision

Under the 2017 Plan, the shares reserved automatically increase on January 1st of each year, for a period of not more than ten years from the date the 2017 Plan is approved by the stockholders of the Company, commencing on January 1, 2019 and ending on (and including) January 1, 2027, to an amount equal to 13% of the fully-diluted shares outstanding as of December 31st of the preceding calendar year. Notwithstanding the foregoing, the Company’ s Board of Directors may act prior to January 1st of a given year to provide that there will be no January 1st increase in the share reserve for such year or that the increase in the share reserve for such year will be a lesser number of shares of common stock than would otherwise occur pursuant to the preceding sentence. “Fully Diluted Shares” as of a date means an amount equal to the number of shares of common stock (i) outstanding and (ii) issuable upon exercise, conversion or settlement of outstanding awards under the 2017 Plan and any other outstanding options, warrants or other securities of the Company that are (directly or indirectly) convertible or exchangeable into or exercisable for shares of common stock, in each case as of the close of business of the Company on

December 31 of the preceding calendar year. Effective January 1, 2023, 129,479 shares were added to the 2017 Plan as a result of the evergreen provision.

General

As of June 30, 2023, 1,129,125 shares were available in the aggregate for future issuance under the 2017 Plan and Inducement Plan. No shares were available for future issuance under the 2016 Equity Incentive Plan. Unrecognized stock-based compensation was $1,745,365 as of June 30, 2023. The unrecognized share-based expense is expected to be recognized over a weighted average period of 2.0 years.

NOTE 9 – Concentrations

Revenue

One customer accounts for all of the Company's product and collaborations revenue.

Supplier concentration

One contract manufacturer produces all of the Company's Strip/Grid Products and sEEG Products.

NOTE 10 – Income Taxes

The effective tax rate for the three and nine months ended June 30, 2023 and 2022 was zero percent. As a result of the analysis of all available evidence as of June 30, 2023 and September 30, 2022, the Company recorded a full valuation allowance on its net deferred tax assets. Consequently, the Company reported no income tax benefit during the three and nine months ended June 30, 2023 and 2022. If the Company's assumptions change and the Company believes that it will be able to realize these deferred tax assets, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets will be recognized as a reduction of future income tax expense. If the assumptions do not change, each period the Company could record an additional valuation allowance on any increases in the deferred tax assets.

NOTE 11 – Stockholders' Equity

At-The-Market Offering

On December 21, 2022, the Company entered into a Capital on Demand™ Sales Agreement ("Sales Agreement") with JonesTrading Institutional Services LLC ("JonesTrading") to create an at-the-market offering program ("ATM") under which the Company may offer and sell shares having an aggregate offering price of up to $14.5 million. JonesTrading is entitled to a commission at a fixed commission rate equal to up to 3% of the gross proceeds. As of June 30, 2023, 1,439,677 shares of common stock were issued for gross proceeds of $2,552,656 under the ATM, and issuance costs in the amount of $234,725 have been incurred in connection with the ATM. See Note 13 - Subsequent Events.

Public Offering

On October 13, 2021, the Company, entered into an Underwriting Agreement (the "CH Underwriting Agreement") with Craig-Hallum Capital Group LLC, as underwriter ("Craig-Hallum"), relating to the issuance and sale of 3,750,000 shares of the Company's common stock at a price to the public of $3.20 per share. In addition, under the terms of the CH Underwriting Agreement, the Company granted Craig-Hallum an option, exercisable for 30 days, to purchase up to an additional 562,500 shares of common stock on the same terms. The base offering closed on October 15, 2021, and the sale of 422,057 shares of common stock subject to Craig-Hallum's overallotment option closed on November 15, 2021.

The gross proceeds to the Company from this offering were approximately $13.4 million prior to deducting underwriting discounts and other offering expenses payable by the Company in the amount of approximately $1.4 million in the aggregate.

Warrant Activity and Summary

There were no warrant exercises during the three and nine months ended June 30, 2023 and 425,370 and 695,848 warrants expired during the three and nine months ended June 30, 2023, respectively.

The following table summarizes information about warrants outstanding at June 30, 2023:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual life (Years)	Number Exercisable at June 30, 2023
$ 3.00	350,000	4.09	350,000
$ 5.25	4,166,682	2.55	4,166,682
$ 5.61	220,855	5.01	220,855
$ 6.00	45,171	1.01	45,171
$ 7.50	279,727	0.67	279,727
$ 8.25	62,906	1.01	62,906
$ 9.00	1,282,154	0.43	1,282,154
Total	6,407,495		6,407,495

NOTE 12 – Deferred Contribution Plan

The Company has a 401(k) defined contribution plan (the "401K Plan") for all employees aged 21 and over. Employees can defer up to 100% of their compensation through payroll withholdings into the 401K Plan subject to federal law limits. The Company may match 100% of deferrals up to 3% of one's contributions. The Company's matching contributions to employee deferrals are discretionary. The Company may also make discretionary profit sharing contributions under the 401K Plan in the future, but it has not done so through June 30, 2023.

Employee contributions and any employer matching contributions made to satisfy certain non-discrimination tests required by the Internal Revenue Code are 100% vested upon contribution. Discretionary employer matches to employee deferrals vest over a nine year period beginning on the second anniversary of an employee's date of hire. Discretionary profit sharing contributions vest over a five year period beginning on the first anniversary of an employee's date of hire. The amount of matching contributions to the 401K Plan to satisfy certain non-discrimination tests was zero and $30,697 during the three and nine months ending June 30, 2023 and 2022, respectively.

NOTE 13 – Subsequent Events

ATM

As of June 30, 2023, 1,439,677 shares of common stock were issued for gross proceeds of $2,552,656 under the ATM, and issuance costs in the amount of $234,725 have been incurred in connection with the ATM. On July 24, 2023, we decreased the amount of common stock that can be sold pursuant to the Sales Agreement, such that we are offering up to an aggregate of $2,560,000 of our common stock for sale under the Sales Agreement, including the shares of common stock previously sold.

July 2023 Public Offering

On July 24, 2023, the Company entered into an Underwriting Agreement (the "Benchmark Underwriting Agreement") with The Benchmark Company, LLC, as underwriter ("Benchmark"), relating to the issuance and sale of 5,250,000 shares of the Company's common stock, par value $0.001 per share, at a price to the public of $1.00 per share. In addition, under the terms of the Benchmark Underwriting Agreement, the Company granted Benchmark an option, exercisable for 30 days, to purchase up to an additional 787,500 shares of common stock on the same terms ("the Overallotment Option"). The offering closed on July 27, 2023, and the Company completed the sale and issuance of an aggregate of 6,037,500 shares of its common stock, including the exercise in full of the Overallotment Option.

The net proceeds to the Company from this offering were approximately $5,214,875 after deducting underwriting discounts and other offering expenses payable by the Company. The Company intends to use the net proceeds from this offering to: (i) support the commercial launch of the EVO sEEG electrode with Zimmer Biomet, (ii) support the FDA submission for the OneRF ablation system and (iii) complete the design of a novel drug delivery electrode, among other general corporate purposes.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and notes included in Part I "Financial Information", Item I "Financial Statements" of this Quarterly Report on Form 10-Q (the "Report") and the audited financial statements and related footnotes included in our Annual Report on Form 10-K for the year ended September 30, 2022.

Forward-Looking Statements

This Report contains forward-looking statements that involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements by the words "may," "might," "will," "could," "would," "should," "expect," "intend," "plan," "objective," "anticipate," "believe," "estimate," "predict," "project," "potential," "target," "seek," "contemplate," "continue" and "ongoing," or the negative of these terms, or other comparable terminology intended to identify statements about the future. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Report, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain. Forward-looking statements include statements about:

- our ability to maintain regulatory clearance of our cortical strip and grid electrode technology;
- our ability to obtain and maintain regulatory clearance for our RF ablation system;
- our ability to successfully commercialize our technology in the United States;
- our ability to achieve or sustain profitability;
- our ability to raise additional capital and to fund our operations;
- the availability of additional capital on acceptable terms or at all as or when needed;
- the clinical utility of our cortical strip, grid and depth electrode including technology under development;
- our ability to develop additional applications of our cortical strip, grid and depth electrode technology with the benefits we hope to offer as compared to existing technology, or at all;
- the results of our development and distribution relationship with Zimmer, Inc. ("Zimmer");
- we have been the victim of a cyber-related crime, and our controls may not be successful in avoiding future cyber-related crimes; and
- the performance, productivity, reliability and regulatory compliance of our third party manufacturers of our cortical strip, grid electrode and depth electrode technology;
- our ability to develop future generations of our cortical strip, grid and depth electrode technology;
- our future development priorities;
- the impact of the COVID-19 pandemic on our business;
- our ability to obtain reimbursement coverage for our cortical strip, grid and depth electrode technology;

- our expectations about the willingness of healthcare providers to recommend our cortical strip, grid and depth electrode technology to people with epilepsy, Parkinson's disease, dystonia, essential tremors, chronic pain due to failed back surgeries and other related neurological disorders;
- our future commercialization, marketing and manufacturing capabilities and strategy;
- our ability to comply with applicable regulatory requirements;
- our ability to maintain our intellectual property position;
- our expectations regarding international opportunities for commercializing our cortical strip, grid and depth electrode technology under including technology under development;
- our estimates regarding the size of, and future growth in, the market for our technology, including technology under development; and
- our estimates regarding our future expenses and needs for additional financing.

Forward-looking statements are based on management's current expectations, estimates, forecasts and projections about our business and the industry in which we operate, and management's beliefs and assumptions are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. You should refer to the "Risk Factors" section of our Annual Report on Form 10-K for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all.

These forward-looking statements speak only as of the date of this Report. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future. You should, however, review the factors and risks and other information we describe in the reports we will file from time to time with the Securities and Exchange Commission (the "SEC") after the date of this Report.

Overview

We are a medical technology company focused on the development and commercialization of thin film electrode technology for continuous electroencephalogram ("cEEG") and stereoelectrocencephalography ("sEEG"), spinal cord stimulation, brain stimulation, drug delivery and ablation solutions for patients suffering from epilepsy, Parkinson's disease, dystonia, essential tremors, chronic pain due to failed back surgeries and other related neurological disorders. We are also developing the capability to use our sEEG electrode technology to deliver drugs or gene therapy while being able to record brain activity before, during, and after delivery. Additionally, we are investigating the potential applications of our technology associated with artificial intelligence.

In November 2019, our Evo cortical technology received 510(k) clearance from the FDA for recording, monitoring, and stimulating brain tissue for up to 30 days, and in October 2022, we received FDA clearance for our Evo sEEG electrode technology for temporary (less than 30 days) use with recording, monitoring, and stimulation equipment for the recording, monitoring, and stimulation of electrical signals at the subsurface level of the brain.

We completed feasibility bench top testing with a new design of our diagnostic and ablation depth electrode in the first calendar quarter of 2021 and signed a contract with RBC Medical Innovations to develop hardware for the system in the third calendar quarter of 2021. We completed design verification of such hardware early in the second calendar quarter of 2023. We also completed an animal feasibility study at Emory University in September 2021. We completed additional animal studies early in the second quarter of calendar 2023 and submitted an application for FDA 510(k) clearance in June 2023. Our other products are still under development.

We commenced commercial sales of cEEG strip/grid and electrode cable assembly products beginning in the first quarter of fiscal year 2021. We sold, on a limited application basis for design verification, sEEG depth electrode products for non-human use beginning in late fiscal year 2021, and we commenced commercial sales of our sEEG depth electrode products in late calendar 2022. Our other products are still under development.

We have incurred losses since inception. As of June 30, 2023, we had an accumulated deficit of $59.6 million, primarily as a result of expenses incurred in connection with our research and development, selling, general and administrative expenses associated with our operations and interest expense, fair value adjustments and loss on extinguishments related to our debt, offset in part by collaborations and product revenues.

Prior to FDA clearance of certain of our products, our main sources of cash, cash equivalents and short-term investments were proceeds from the issuances of notes, common stock, warrants and unsecured loans. See "Liquidity and Capital Resources—Capital Resources" below. While we have begun to generate revenue from the sale of products based on our cEEG and sEEG technology and through milestone and other payments from our current collaboration with Zimmer, we expect to continue to incur significant expenses and increasing operating and net losses for the foreseeable future until and unless we generate a higher level of revenue from commercial sales, and we will need to obtain substantial additional funding in connection with our continuing operations through public or private equity or debt financings, through collaborations or partnerships with other companies or other sources.

We may be unable to raise additional funds when needed on favorable terms or at all. Our failure to raise such capital as and when needed would have a negative impact on our financial condition and our ability to develop and commercialize our cortical strip, grid electrode and depth electrode technology and future products and our ability to pursue our business strategy. See "Liquidity and Capital Resources—Liquidity Outlook" below.

Recent Developments and Upcoming Milestones

Corporate Updates

sEEG Commercial Launch

In May 2023 we announced the commercial launch of the Evo® sEEG electrode product line in the United States with exclusive distribution partner Zimmer Biomet. We have fulfilled eight shipments of sEEG product to Zimmer Biomet in preparation for launch and completed initial training on the sEEG product line to Zimmer Biomet sales personnel.

The first clinical case using the Evo® sEEG electrode in robotic neurosurgery was performed by Dr. William Bingaman at the Cleveland Clinic. The procedure was the first to utilize NeuroOne's Evo sEEG electrode with Zimmer Biomet's ROSA One® Brain, a robotic platform that assists surgeons in planning and performing complex yet minimally invasive neurosurgical procedures.

OneRF Ablation

During the second fiscal quarter of 2023, we successfully completed summative usability testing for OneRF with 15 neurosurgeons, and completed execution of internal device verification/validation protocols for the final OneRF Ablation System. We submitted a 510(k) application to the FDA for the OneRF ablation system in June 2023.

Spinal Cord Stimulation Program

During the second fiscal quarter of 2023, we completed an initial animal implant of novel thin film paddle leads for spinal cord stimulation (SCS). The devices are intended for the treatment of patients with chronic back pain due to multiple failed back surgery syndrome, intractable low back, and leg pain. A percutaneous (through a needle) delivery system for paddle leads is also under development and has been successfully bench-tested.

Global Economic Conditions

Generally, worldwide economic conditions remain uncertain, particularly due to the conflict between Russia and Ukraine, disruptions in the banking system and financial markets, lingering effects of the COVID-19 pandemic and increased inflation. The general economic and capital market conditions both in the U.S. and worldwide, have been volatile in the past and at times have adversely affected our access to capital and increased the cost of capital. The capital and credit markets may not be available to support future capital raising activity on favorable terms or at all. If economic conditions decline, our future cost of equity or debt capital and access to the capital markets could be adversely affected.

The COVID-19 pandemic that began in late 2019 introduced significant volatility to the global economy, disrupted supply chains and had a widespread adverse effect on the financial markets. Additionally, our operating results could be materially impacted by changes in the overall macroeconomic environment and other economic factors. Changes in economic conditions, supply chain constraints, logistics challenges, labor shortages, the conflict in Ukraine, disruptions in the banking system and financial markets, and steps taken by governments and central banks, particularly in response to the COVID-19 pandemic as well as other stimulus and spending programs, have led to higher inflation, which has led to an increase in costs and has caused changes in fiscal and monetary policy, including increased interest rates.

Financial Overview

Product Revenue

Our product revenue was derived from the sale of our strip and grid cortical electrodes (“Strip/Grid Products”), depth electrodes (“sEEG Products”) and electrode cable assembly products (“Electrode Cable Assembly Products”) based on Evo cortical technology. We anticipate that we will generate additional revenue from the sale of products based on Evo cortical technology.

In November 2019, we received FDA 510(k) clearance for our cortical strip electrode for temporary (less than 30 days) recording, monitoring, and stimulation on the surface of the brain. In October 2022, we received FDA 510(k) clearance for our Evo sEEG electrode technology for temporary (less than 30 days) use with recording, monitoring, and stimulation equipment for the recording, monitoring, and stimulation of electrical signals at the subsurface level of the brain.

Product Gross Profit (Loss)

Product gross profit (loss) represents our product revenue less our cost of product revenue. Our cost of product revenue consists of the manufacturing and materials costs incurred by our third-party contract manufacturer in connection with our Strip/Grid Products, sEEG Products and outside supplier materials costs of producing the Electrode Cable Assembly Products. In addition, cost of product revenue includes royalty fees incurred in connection with our license agreements.

Collaborations Revenue

On July 20, 2020, we entered into an exclusive development and distribution agreement (the “Zimmer Development Agreement”) with Zimmer, pursuant to which we granted Zimmer exclusive global rights to distribute the Strip/Grid Products and electrode cable assembly products (the “Electrode Cable Assembly Products”). Additionally, we granted Zimmer the exclusive right and license to distribute certain depth electrodes developed by the Company (“sEEG Products” , and together with the Strip/Grid Products and Electrode Cable Assembly Products, the “Products”). The parties have agreed to collaborate with respect to development activities under the Zimmer Development Agreement through a joint development committee composed of an equal number of representatives of Zimmer and the Company.

Under the terms of the Zimmer Development Agreement, we are responsible for all costs and expenses related to developing the Products, and Zimmer is responsible for all costs and expenses related to the commercialization of the Products. In addition to the Zimmer Development Agreement, Zimmer and the Company have entered into a Manufacturing and Supply Agreement (the “MS Agreement”) and a supplier quality agreement (the “Quality Agreement”) with respect to the manufacturing and supply of the Products.

Except as otherwise provided in the Zimmer Development Agreement, we are responsible for performing all development activities, including non-clinical and clinical studies directed at obtaining regulatory approval of each Product. Zimmer has agreed to use commercially reasonable efforts to promote, market and sell each Product following the "Product Availability Date" (as defined in the Zimmer Development Agreement) for such Product.

Pursuant to the Zimmer Development Agreement, Zimmer made an upfront initial exclusivity fee payment of $2.0 million (the "Initial Exclusivity Fee") to the Company in fiscal year 2020. In addition, on August 2, 2022, we entered into a Third Amendment to the Zimmer Development Agreement (the "Amendment") with Zimmer. Pursuant to the terms and conditions of the Amendment, Zimmer made a $3.5 million payment to us in August 2022. In consideration of the mutual covenants and agreements contained in the Zimmer Development Agreement, certain fee and milestone payment provisions in the Zimmer Development Agreement were replaced with the following below:

- $1.5 million for the sEEG exclusivity maintenance fee; and
- $2.0 million for satisfaction of each of the milestone events related to the design of sEEG Products set forth in the Zimmer Development Agreement, even though the satisfaction was after the deadlines originally identified.

In addition, in connection with the Amendment, we issued to Zimmer a warrant to purchase common stock (the "2022 Zimmer Warrant"). The 2022 Zimmer Warrant is exercisable for up to an aggregate of 350,000 shares of our Common Stock. The 2022 Zimmer Warrant has an exercise price of $3.00 per share, will be exercisable commencing six months from the issuance date, and will expire on August 2, 2027.

The Zimmer Development Agreement will expire on the tenth anniversary of the date of the first commercial sale of the last Products to achieve a first commercial sale (the "Zimmer Term"), unless terminated earlier pursuant to its terms. Either party may terminate the Zimmer Development Agreement (x) with written notice for the other party's material breach following a cure period or (y) if the other party becomes subject to certain insolvency proceedings. In addition, Zimmer may terminate the Zimmer Development Agreement for any reason with 90 days' written notice, and the Company may terminate the Zimmer Development Agreement if Zimmer acquires or directly or indirectly owns a controlling interest in certain competitors of the Company. The license rights granted to Zimmer under the Zimmer Development Agreement shall be exclusive from the effective date of the Amendment until the end of the Zimmer Term.

All payments attributed to the Initial Exclusivity Fee, the sEEG exclusivity maintenance fee and sEEG design milestone payment are non-refundable.

The Zimmer Development Agreement and Amendment were accounted for under the provisions of Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers ("ASC 606").* In accordance with the provisions under ASC 606, we identified five performance obligations under the Zimmer Development Agreement and Amendment: (1) our obligation to grant Zimmer access to our intellectual property; (2) completion of sEEG Product development; (3) completion of Strip/Grid Product development; (4) the provision of sEEG exclusivity maintenance; and (5) sEEG design modifications as requested by Zimmer. All performance obligations under the Zimmer Development Agreement and Amendment were met as of December 31, 2022.

In October 2022, we received 510(k) clearance from the FDA for our Evo sEEG electrode technology for temporary (less than 30 days) use with recording, monitoring, and stimulation equipment for the recording, monitoring, and stimulation of electrical signals at the subsurface level of the brain. Accordingly, we recognized revenue in the amount of $1.5 million during the nine months ended June 30, 2023 related to the completion of the sEEG exclusivity maintenance milestone. During the nine months ended June 30, 2022, we recognized revenue in the amount of $6,000 related to sEEG Product development.

The achievement of the level of sales required to earn royalty payments from Zimmer is uncertain.

For further discussion about the determination of collaborations revenue, product revenue and cost of product revenue, and for a discussion of milestones and royalty payments under the Zimmer Development Agreement, see "—Liquidity and Capital Resources—Liquidity Outlook" below and see "Note 7 — Zimmer Development Agreement" included in our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report.

Selling, General and Administrative

Selling, general and administrative expenses consist primarily of personnel-related costs including stock-based compensation for personnel in functions not directly associated with research and development activities. Other significant costs include legal and litigation costs relating to corporate matters, intellectual property costs, professional fees for consultants assisting with financial and administrative matters, and sales and marketing in connection with the commercial sale of cEEG strip/grid, sEEG depth electrode and electrode cable assembly products. We anticipate that our selling, general and administrative expenses will significantly increase in the future to support our continued research and development activities, further commercialization of our cortical strip and grid technology, and our depth electrode technology, and the increased costs of operating as a public company. These increases will include increased costs related to the hiring of additional personnel and fees for legal and professional services, as well as other public company related costs.

Research and Development

Research and development expenses consist of expenses incurred in performing research and development activities in developing our cortical strip and grid electrode and depth electrode technology. Research and development expenses include compensation and benefits for research and development employees including stock-based compensation, overhead expenses, cost of laboratory supplies, clinical trial and related clinical manufacturing expenses, costs related to regulatory operations, fees paid to consultants and other outside expenses. Research and development costs are expensed as incurred and costs incurred by third parties are expensed as the contracted work is performed. Lastly, de minimis income from the sale of prototype products and related materials are offset against research and development expenses.

We expect our research and development expenses to significantly increase over the next several years as we develop our cortical strip and grid electrode and depth electrode technology and conduct preclinical testing and clinical trials and will depend on the duration, costs and timing to complete our preclinical programs and clinical trials.

Other Income, net

Other income, net primarily consists of interest income related to our cash, cash equivalents, investment income or loss from short-term investments and other income or expense outside of normal operating activity relating to legal settlements, sales of non-commercial supplies and other items as applicable.

Results of Operations

Comparison of the Three Months Ended June 30, 2023 and 2022

The following table sets forth the results of operations for the three months ended June 30, 2023 and 2022, respectively.

	For the Three Months Ended June 30, (unaudited)		
	2023	2022	Period to Period Change
Product revenue	$ 629,906	$ 32,049	$ 597,857
Cost of product revenue	386,240	38,462	347,778
Product gross profit (loss)	243,666	(6,413)	250,079
Operating expenses:			
Selling, general and administrative	1,862,389	1,529,670	332,719
Research and development	1,891,512	1,225,351	666,161
Total operating expenses	3,753,901	2,755,021	998,880
Loss from operations	(3,510,235)	(2,761,434)	(748,801)
Other income, net	41,462	1,707	39,755
Loss before income taxes	(3,468,773)	(2,759,727)	(709,046)
Provision for income taxes	—	—	—
Net loss	$(3,468,773)	$(2,759,727)	$ (709,046)

Product Revenue and Product Gross Profit (Loss)

Product revenue and product gross profit was $0.6 million and $0.2 million, respectively, during the three months ended June 30, 2023. Product revenue and product gross loss was $32,000 and $(6,000), respectively, during the three months ended June 30, 2022. The increase in gross profit during the current three month period was largely due to the higher sales volume that exceeded fixed royalty period costs. The product revenue consists of the sale of our strip/grid, sEEG and electrode cable assembly products. Cost of product revenue consisted of the manufacturing and materials costs incurred by our third-party contract manufacturer in connection with our strip/grid and sEEG products, and outside supplier materials costs in connection with the electrode cable assembly products. In addition, cost of product revenue included royalty fees incurred of approximately $43,000 and $38,000 in connection with our license agreements during the three months ended June 30, 2023 and 2022, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $1.9 million and $1.5 million during the three months ended June 30, 2023 and 2022, respectively. The $0.3 million expense increase in the current three months was attributed to higher administrative payroll costs of approximately $0.1 million and professional services costs of $0.2 million.

Research and Development Expenses

Research and development expenses were $1.9 million for the three months ended June 30, 2023, compared to $1.2 million during for the three months ended June 30, 2022. The $0.7 million increase period over period was attributed to supporting development activities, which primarily included salary-related expenses and costs related to consulting services, materials and supplies associated with the development of sEEG Products and to a much lesser extent Strip/Grid Products.

Other Income, net

Other income during the three months ended June 30, 2023 and 2022 related to interest income on our cash and cash equivalents in the amount of $41,000 and $2,000, respectively.

Comparison of the Nine Months Ended June 30, 2023 and 2022

The following table sets forth the results of operations for the nine months ended June 30, 2023 and 2022, respectively.

	For the Nine Months Ended June 30, (unaudited)		
	2023	2022	Period to Period Change
Product revenue	$ 1,210,661	$ 102,381	$ 1,108,280
Cost of product revenue	947,799	158,113	789,686
Product gross profit (loss)	262,862	(55,732)	318,594
Collaborations revenue	1,455,188	6,374	1,448,814
Operating expenses:			
Selling, general and administrative	5,347,234	5,090,018	257,216
Research and development	5,161,322	3,491,193	1,670,129
Total operating expenses	10,508,556	8,581,211	1,927,345
Loss from operations	(8,790,506)	(8,630,569)	(159,937)
Other income, net	66,136	5,300	60,836
Loss before income taxes	(8,724,370)	(8,625,269)	(99,101)
Provision for income taxes	—	—	—
Net loss	$(8,724,370)	$(8,625,269)	$ (99,101)

Product Revenue and Product Gross Profit (Loss)

Product revenue and product gross profit was $1.2 million and $0.3 million during the nine months ended June 30, 2023, respectively. Product revenue and product gross loss was $102,000 and $(56,000) during the nine months ended June 30, 2022, respectively. The increase in gross profit during the current period was largely due to the higher sales volume that exceeded fixed royalty period costs. Product revenue consisted of Strip/Grid Products, sEEG Products and Electrode Cable Assembly Products sales. Cost of product revenue consisted of the manufacturing and materials costs incurred by our third-party contract manufacturer in connection with our Strip/Grid Products, sEEG Products and outside supplier materials costs in connection with the Electrode Cable Assembly Products. In addition, cost of product revenue included royalty fees incurred of approximately $119,000 and $103,000 in connection with our license agreements during the nine months ended June 30, 2023 and 2022, respectively.

Collaborations Revenue

Collaborations revenue was $1.5 million and $6,000 for the nine months ended June 30, 2023 and 2022, respectively. Revenue during each period was derived from the Zimmer Development Agreement and represented the portion of the upfront initial development fee payment eligible for revenue recognition during such period. The amount of revenue recognized in the current nine months related to the completion of the sEEG maintenance fee obligation as a result of securing FDA approval. For the comparable prior year period, the upfront fee was based on development completed in connection with depth electrode products, and to a lesser extent, the Strip/Grid Products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $5.3 million for the nine months ended June 30, 2023, compared to $5.1 million for the nine months ended June 30, 2022. The $0.3 million increase was primarily due to higher administrative payroll costs of $0.2 million and stock-based compensation of $0.1million.

Research and Development Expenses

Research and development expenses were $5.2 million for the nine months ended June 30, 2023, compared to $3.5 million for the nine months ended June 30, 2022. The $1.7 million increase period over period was attributed to supporting development activities, which primarily included salary-related expenses and costs related to consulting services, materials and supplies associated with the development of sEEG Products and to a much lesser extent Strip/Grid Products.

Other Income, net

Other income, net during the nine months ended June 30, 2023 of $66,000 consisted of $160,000 related primarily to interest income attributed to our cash, cash equivalents and short-term investments, while outstanding, which was partially offset by an exploit loss of $94,000.

Other income during the nine months ended June 30, 2022 consisted of $5,000 related primarily to interest income attributed to our cash deposits.

Liquidity and Capital Resources

Overview

As of June 30, 2023, our principal source of liquidity consisted of cash and cash equivalents in the aggregate of approximately $3.1 million. While we began to generate revenue in fiscal year 2021 from commercial sales and through milestone and other payments under our collaboration with Zimmer, we expect to continue to incur significant expenses and increasing operating and net losses for the foreseeable future until and unless we generate an adequate level of revenue from commercial sales to cover expenses. Our most significant cash requirements relate to the funding of our ongoing product development and commercialization operations and our royalty obligations under our intellectual property licenses with the Wisconsin Alumni Research Foundation ("WARF") and the Mayo Foundation for Medical Education and Research ("Mayo"). Our additional material cash needs include commitments under operating leases and other administrative services. See "Funding Requirements" below for more information. We anticipate that our expenses will increase substantially as we develop and commercialize our cortical strip, grid electrode and depth electrode technology and pursue pre-clinical and clinical trials, seek regulatory approvals, manufacture products, establish our own sales, marketing and distribution infrastructure to commercialize our ablation electrode technology, hire additional staff, add operational, financial and management systems and continue to operate as a public company.

Capital Resources

Our sources of cash, cash equivalents and short-term investments to date have been limited to collaboration and product revenues, along with proceeds from the issuances of notes with warrants, common stock with and without warrants and unsecured loans, with the terms of our most recent financings, as of the third fiscal quarter of 2023, described below.

At-The-Market Offering

On December 21, 2022, we entered into a Capital on Demand™ Sales Agreement ("Sales Agreement") with JonesTrading Institutional Services LLC ("JonesTrading") to create an at-the-market offering program ("ATM") under which we may offer and sell shares having an aggregate offering price of up to $14.5 million. JonesTrading is entitled to a commission at a fixed commission rate equal to up to 3% of the gross proceeds. Through June 30, 2023, we have issued 1,439,677 shares of common stock under the ATM for gross proceeds in the amount of $2.6 million. We incurred issuance costs in connection with the ATM in the amount of $0.2 million through June 30, 2023. On July 24, 2023, we decreased the amount of common stock that can be sold pursuant to the Sales Agreement, such that we are offering up to an aggregate of $2.6 million of our common stock for sale under the Sales Agreement, including the shares of common stock previously sold.

October 2021 Underwritten Public Offering

On October 13, 2021, we entered into an underwriting agreement relating to the issuance and sale of 3,750,000 shares of our common stock at a price to the public of $3.20 per share (the "October 2021 Underwritten Public Offering"). In addition, under the terms of the underwriting agreement, we granted the underwriter an option, exercisable for 30 days, to purchase up to an additional 562,500 shares of common stock on the same terms. The base offering closed on October 15, 2021, and the sale of 422,057 shares of common stock subject to the underwriter' s overallotment option closed on November 15, 2021. The gross proceeds from this offering were approximately $13.4 million prior to deducting underwriting discounts and other offering expenses payable by us.

Funding Requirements

As noted above, certain of our cash requirements relate to the funding of our ongoing product development and commercialization operations and our milestone and royalty obligations under our intellectual property licenses with WARF and Mayo. See "Item 1—Business—Clinical Development and Regulatory Pathway—Clinical Experience, Future Development and Clinical Trial Plans" in our Annual Report on Form 10-K for the year ended September 30, 2022 for a discussion of design, development, pre-clinical and clinical activities that we may conduct in the future, including expected cash expenditures required for some of those activities, to the extent we are able to estimate such costs.

On January 22, 2020, we entered into an Amended and Restated License Agreement (the "WARF License") with WARF, which amended and restated in full our prior license agreement with WARF, dated October 1, 2014 (the "Original WARF License"). Under the WARF License, we have agreed to pay WARF a royalty equal to a single-digit percentage of our product sales pursuant to the WARF License, with a minimum annual royalty payment of $50,000 for 2020, $100,000 for 2021 and $150,000 for 2022 and each calendar year thereafter that the WARF License is in effect. If we or any of our sublicensees contest the validity of any licensed patent, the royalty rate will be doubled during the pendency of such contest and, if the contested patent is found to be valid and would be infringed by us if not for the WARF License, the royalty rate will be tripled for the remaining term of the WARF License.

Under the Amended and Restated License and Development Agreement with Mayo (the "Mayo Development Agreement"), we have agreed to pay Mayo a royalty equal to a single-digit percentage of our product sales pursuant to the Mayo Development Agreement. See "Note 4 - Commitments and Contingencies" included in our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report for more information about the WARF License and the Mayo Development Agreement.

Our other cash requirements within the next twelve months include accounts payable, accrued expenses, purchase commitments and other current liabilities. Our other cash requirements greater than twelve months from various contractual obligations and commitments include operating leases and contracted services. Refer to "Note 4 - Commitments and Contingencies" included in our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report for further detail of our lease obligations and the timing of expected future payments. Contracted services include agreements with third-party service providers for clinical research, product development, manufacturing, supplies, payroll services, equipment maintenance services, and audits for periods up to fiscal year 2025.

We expect to satisfy our short-term and long-term obligations through cash on hand and, until we generate an adequate level of revenue from commercial sales to cover expenses, if ever, from future equity and debt financings.

Liquidity Outlook

For a discussion of potential fee payments under the Zimmer Development Agreement, see "Note 7 — Zimmer Development Agreement" included in our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report. Even though we have received regulatory clearance to expand the use of our Evo sEEG electrode technology for up to 30 days, commercial sales of the sEEG electrodes are expected to take some time to be a significant source of liquidity. Zimmer has exclusive global rights to distribute our strip and grid cortical electrodes, depth electrodes and electrode cable assembly products. Zimmer's failure to timely develop or commercialize these products would have a material adverse effect on our business and operating results.

At June 30, 2023, we had cash and cash equivalents in the aggregate of approximately $3.1 million. Management has noted the existence of substantial doubt about our ability to continue as a going concern. Additionally, our independent registered public accounting firm included an explanatory paragraph in the report on our financial statements as of and for the years ended September 30, 2022 and 2021, respectively, noting the existence of substantial doubt about our ability to continue as a going concern. Our existing cash, cash equivalents and short-term investments may not be sufficient to fund our operating expenses through at least twelve months from the date of this filing. To continue to fund operations, we will need to secure additional funding through public or private equity or debt financings, through collaborations or partnerships with other companies or other sources. We may not be able to raise additional capital on terms acceptable to us, or at all. Any failure to raise capital when needed could compromise our ability to execute on our business plan. If we are unable to raise additional funds, or if our anticipated operating results are not achieved, we believe planned expenditures may need to be reduced in order to extend the time period that existing resources can fund our operations. If we are unable to obtain the necessary capital, it may have a material adverse effect on our operations and the development of our technology, or we may have to cease operations altogether.

The development and commercialization of our cortical strip, grid electrode and depth electrode technology is subject to numerous uncertainties, and we could use our cash and cash equivalent resources sooner than we expect. Additionally, the process of developing medical devices is costly, and the timing of progress in pre-clinical tests and clinical trials is uncertain. Our ability to successfully transition to profitability will be dependent upon achieving further regulatory approvals and achieving a level of product sales adequate to support our cost structure. We cannot assure you that we will ever be profitable or generate positive cash flow from operating activities.

Cash Flows

The following is a summary of cash flows for each of the periods set forth below.

	For the Nine Months Ended June 30,	
	2023	2022
Net cash used in operating activities	$(9,984,048)	$(8,537,351)
Net cash provided by (used in) investing activities	2,700,084	(209,044)
Net cash provided by financing activities	2,207,093	12,023,282
Net (decrease) increase in cash and cash equivalents	$(5,076,871)	$ 3,276,887

Net cash used in operating activities

Net cash used in operating activities was $10.0 million for the nine months ended June 30, 2023, which consisted of a net loss of $8.7 million partially offset principally by non-cash stock-based compensation, depreciation, amortization related to intangible assets, operating lease expense, totaling approximately $1.0 million in the aggregate. The net change in our net operating assets and liabilities associated with fluctuations in our operating activities resulted in a cash use of approximately $2.3 million. The net cash use stemming from the change in operating assets and liabilities was primarily attributable to a decrease in deferred revenue in connection with the completion of the remaining milestone performance obligation under the Zimmer Development Agreement, and to a lesser extent, to an increase in inventory purchases, coupled with a decrease in the aggregate of account payable and accrued expenses, attributed to the timing of payments. Partially offsetting the net cash operating use during the period was a decrease in our accounts receivable and prepaids in the aggregate of $0.1 million resulting from timing of payments and fluctuations in our operations.

Net cash used in operating activities was $8.5 million for the nine months ended June 30, 2022, which consisted of a net loss of $8.6 million partially offset principally by non-cash stock-based compensation, depreciation, amortization related to intangible assets, operating lease expense, totaling approximately $0.9 million in the aggregate. The net change in our net operating assets and liabilities associated with fluctuations in our operating activities resulted in a cash use of approximately $0.8 million. The change in operating assets and liabilities was primarily attributable to a net decrease in accounts payable and accrued expenses and to an increase in inventory and prepaid expenses attributed to both the timing of payments and the timing of product sales.

Net cash provided by (used in) investing activities

Net cash provided by investing activities was $2.7 million and consisted of maturities of short-term investments in the amount of $4.5 million, offset by purchases of short term investment of $1.5 million, consisting of treasury and corporate notes. The balance of activity during the period consisted of outlays for purchases of property and equipment in the amount $0.3 million.

Net cash used in investing activities was $0.2 million during the nine months ended June 30, 2022 and consisted of outlays for purchases of property and equipment.

Net cash provided by financing activities

Net cash provided by financing activities was $2.2 million for the nine months ended June 30, 2023, which consisted of net proceeds from the ATM of $2.3 million, offset partially by repurchases of common stock for the payment of employee taxes in the amount of $0.1 million.

Net cash provided by financing activities was $12.0 million for the nine months ended June 30, 2022, which consisted of net proceeds from the October 2021 Underwritten Public Offering.

Critical Accounting Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. These accounting principles require us to make estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenue and expense during the periods presented. We believe that the estimates and judgments upon which we rely are reasonably based upon information available to us at the time that we make these estimates and judgments. To the extent that there are material differences between these estimates and actual results, our financial results will be affected. The accounting policies that reflect our more significant estimates and judgments and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are described in Note 3 — "Summary of Significant Accounting Policies" to our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report.

Of these policies, the following are considered critical to an understanding of our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report as they require the application of the most subjective and the most complex judgments:

Revenues:

For discussion about the determination of collaborations revenue, product revenue and cost of product revenue, see "Note 7 — Zimmer Development Agreement" included in our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report. To date, we have not had, nor expect to have in the future, significant variable consideration adjustments related to product revenue, such as chargebacks, sales allowances and sales returns.

Stock-Based Compensation

For discussions about the application of grant date fair value associated with our stock-based compensation, see "Note 8 — Stock-Based Compensation" included in our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report.

Income Tax Assets and Liabilities

Income tax assets and liabilities include income tax valuation allowances. For additional information, see "Note 10 — Income Taxes" included in our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report and "Note 11 - Income Taxes" in Part II, Item 8 "Financial Statements" of our Annual Report on Form 10-K for the year ended September 30, 2022.

Contingencies

We are subject to numerous contingencies arising in the ordinary course of business, including legal contingencies. For additional information, see "Note 4 — Commitments and Contingencies" included in our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report.

Recent Accounting Pronouncements

Refer to "Note 3— Summary of Significant Accounting Policies" to our condensed financial statements included in "Part 1, Item 1 - Financial Statements" in this Report for a discussion of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable for smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, under the direction of the Chief Executive Officer and the Chief Financial Officer, we have evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report due to the material weakness in our internal controls over financial reporting related to our verification process concerning wire transfer payments to vendors as discussed further below. Notwithstanding this material weakness, our management has concluded that the financial statements included elsewhere in this Quarterly Report present fairly, in all material respects, our financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

In January 2023, we became aware that we had been a victim of a criminal fraud that law enforcement authorities refer to as business email compromise fraud, which involved impersonation of our vendor and fraudulent demands for wire transfers that targeted our finance department. The fraud resulted in a loss of approximately $0.1 million. The Company's investigation into this matter continues as further discussed in Item 1A.

Remediation

During the second fiscal quarter of 2023, enhancements were made to our controls relating to electronic payments, including by wire transfer of funds. These enhancements include additional verification and documentation procedures to be followed prior to the initiation or approval of electronic payments by or for us. We believe these enhancements increase the ability of our personnel to identify and block attempts by third parties to fraudulently initiate electronic payments from us. Our management believes that the foregoing actions will help improve our internal controls over financial reporting. We are actively working to implement effective internal control over financial reporting, which includes remediation of the material weakness. However, such compliance is not guaranteed, and we cannot provide any assurance that our internal control over financial reporting will be effective as a result of these efforts.

Changes in Internal Control over Financial Reporting

Other than the identification of the material weakness described above, there has not been any change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

NeuroOne Medical Technologies Corporation
Form 10-Q

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in various claims and legal proceedings relating to claims arising out of our operations. We are not currently a party to any legal proceedings that, in the opinion of our management, are likely to have a material adverse effect on our business. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors

In addition to the other information set forth below and elsewhere in this Report, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended September 30, 2022. Such factors, if they were to occur, could cause our actual results to differ materially from those expressed in our forward-looking statements in this Report, and materially adversely affect our financial condition or future results. Although we are not aware of any other factors that we currently anticipate will cause our forward-looking statements to differ materially from our future actual results, or materially affect the Company's financial condition or future results, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial might materially adversely affect our actual business, financial condition and/or operating results.

We have been the victim of a cyber-related crime and our controls may not be successful in avoiding further cyber-related crimes in the future.

In January 2023, we were the victim of a business email compromise fraud which resulted in our incurring a loss of approximately $0.1 million. We are working with law enforcement authorities and the banks involved in the wire transfer to pursue recovery of the $0.1 million, but at this time we do not know whether we will be able to recover such funds. Enhancements have been made to our controls relating to electronic payments by or for us that we believe will reduce our risk of becoming a victim of future frauds related to our payments, including by wire transfers. However, cyber-related criminal activities continue to evolve and increase in sophistication, frequency and severity. As a result, the control enhancements that have been made, and any additional enhancements that may be made in the future, to our controls may not be successful in avoiding our becoming a victim to further cyber-related crimes.

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

Share Repurchases

During the three months ended June 30, 2023, we repurchased 8,385 common shares surrendered by employees to satisfy income tax withholding obligations of employees in connection with the administration of employee share-based compensation plans. The following table summarizes the share repurchase activity:

Purchase period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1 - April 30, 2023	2,795	$ 1.61	–	–
May 1 - May 31, 2023	2,795	$ 1.54	–	–
June 1 - June 30, 2023	2,795	$ 1.21	–	–

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable to our Company.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Document
3.1	Certificate of Incorporation of NeuroOne Medical Technologies Corporation (incorporated by reference to Exhibit 3.4 on the Registrant's Current Report on Form 8-K filed on June 29, 2017).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of NeuroOne Medical Technologies Corporation (incorporated by reference to Exhibit 3.1 on the Registrant's Current Report on Form 8-K on March 31, 2021).
3.3	Bylaws of NeuroOne Medical Technologies Corporation (incorporated by reference to Exhibit 3.5 on the Registrant's Current Report on Form 8-K filed on June 29, 2017).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance 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 in Exhibit 101)

* Documents are furnished not filed.

SIGNATURES

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

Dated: August 14, 2023

NeuroOne Medical Technologies Corporation

By: /s/ David Rosa
David Rosa
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Ronald McClurg
Ronald McClurg
Chief Financial Officer
(Principal Financial Officer)