

January 4, 2017

**NeuroMetrix, Inc.**  
**(Nasdaq/NURO/\$0.76/Not rated)**

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**New \$7 Million Private Investment Announced,  
\$26.5 Million Public Unit Offering on Hold**

In an 8-K filed on December 29, 2016, NeuroMetrix announced the terms of a \$7 million private investment secured from a single institutional investor. The Dec. 28<sup>th</sup> Securities Purchase Agreement with the investor calls for the issuance of 7,000 shares of Series E Convertible Preferred stock at a price of \$1,000 per Preferred share and warrants to purchase approximately 10 million common stock shares at an exercise price of \$0.92 per share. Subject to certain ownership limitations, the Series E Preferred shares are convertible at any time into an aggregate of approximately 10 million common shares at a conversion ratio of 1,429 shares of common per share of Series E Preferred. As part of the announcement, NURO stated that the Company would not complete the previously-filed public unit offering and associated repurchase of Series D Convertible Preferred shares. There are several other provisions in December 28<sup>th</sup> Securities Purchase Agreement noted in the 8-K filing of which current investors should be aware including:

\*The investment is to be made in two tranches: a First Tranche of \$4.0 million comprised of 4,000 shares of Series E Convertible Preferred stock and 4 million common stock purchase warrants, which is expected to close immediately, and a Second Tranche of \$3.0 million. The Second Tranche is subject to shareholder approval.

\*Shareholder approval will require the scheduling of a shareholders' meeting at which shareholders will be asked to vote on 1) amending approximately 23.5 existing warrants and 19,450 shares of Series D Convertible Preferred stock held by this investor and its affiliates by resetting the warrant exercise price and the preferred stock conversion price to \$0.70. 2) Shareholders will also be asked to approve setting and resetting the conversion price of the warrants issued in this investment's First Tranche and Second Tranche to \$0.70. 3) If shareholders do not approve the Second Tranche at the first shareholder meeting, NURO is required to call subsequent shareholder meetings to secure Second Tranche approval once every four months until approval is obtained or the Series E Preferred no longer is outstanding.

\*The Series E Preferred stock does not carry any liquidation preference rights or preferential dividend rights. Until shareholder approval is obtained for the Second Tranche, First Tranche Series E Preferred will be subject to a conversion limitation of approximately 1.2 million shares of common stock. No further preferential rights will be granted nor penalties accrue to this investor if NURO is unable to secure Second Tranche shareholder approval.

**Changes in Existing Warrant Terms Noted in 12/30/16 Prospectus Supplement**

In conjunction with the December 28<sup>th</sup> Securities Purchase Agreement, NURO filed a Prospectus Supplement in which the Company agreed to extend the expiration date of 5,411,764 existing common stock purchase warrants from January 15, 2017 until June 28, 2022. The exercise price of these warrants has been reduced from \$2.30 per share to \$0.92 per share, and will be reduced further to \$0.70 per share, subject to the approval of the shareholders' approval requirements.

**Prior Announced Proposed Public Offering on Hold Due to NASDAQ Feedback**

Previously NeuroMetrix had filed with the SEC a proposed public offering of up to \$30 million, comprised of up to 3,398,058 Class A Units, consisting of 1) one share of common stock priced at \$0.70 per share and 2) a common stock warrant exercisable at 110% of the Class A unit price and 26,500 Class B Units (25,728,156 shares of Common Stock underlying the Series E Convertible Preferred Stock) consisting of 1) one share of Series E convertible preferred stock convertible into common stock at the Class A unit price, and 2) an equivalent number of warrants as if Class A units had been purchased. Approximately \$19.45 million of this offering was to be used to redeem approximately 19,450 shares of Series D convertible preferred stock and retire approximately 23.5 million common stock purchase warrants

In the subsequent Prospectus filing, this offering had been downsized to 1,307,143 Class A Units and the pricing of the warrant changed so that each Unit consisted of one share of common stock and a warrant to purchase one share of common stock at an exercise price per common share equal to 100% of the public offering price of the Class A Units. Some of the other terms were also modified. Among other provisions:

\*Purchasers (together with affiliates and related parties), whose purchase of Class A Units in the offering would result in the purchaser beneficially owning more than 4.99% of the outstanding common stock immediately following the consummation of the offering, were offered the opportunity, in lieu of purchasing Class A Units, to purchase 25,543.90 Class B Units. Each Class B Unit will consist of one share of the Series E convertible preferred stock

\*Investors purchasing \$250,000 or more of the securities of the offering were to be offered a separate securities purchase agreement with the Company, providing those investors with certain representations, warranties and covenants from the Company that would not have been available to investors of lesser amounts of our securities.

**Comment**

At the end of the day, we suspect the \$7 million investment was put into place as a stop-gap measure while the Company's bankers figure out how to modify the preferential provisions included in the revised public offering. For current investors, the cap table becomes increasingly complex if the Series D Preferred is not redeemed and makes it more difficult for the Company to obtain the growth capital it deserves to support the expanding market for its products. These, among other factors, undoubtedly contributed to the stock's free-fall from the recent \$0.90-1.05 level to a low of \$0.65 and are likely to contribute to limited upside for the stock for the foreseeable future.

We will be meeting 1x1 with NeuroMetrix management next week at Biotech Showcase to discuss progress against management stated milestones and events and the implication of this transaction. *SG*



Company Notes provide current information we believe might be noteworthy to investors regarding the subject companies. Company Notes are not intended to be complete research reports. More detailed information concerning the rated companies referenced in this Note, including the full reports, basis for price targets and other disclosures, may be found at: [http://dawsonjames.com/research\\_coverage](http://dawsonjames.com/research_coverage).

**Important Disclosures:**

Dawson James Securities, Inc. (the "Firm") is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

The Firm does not make a market in the securities of the subject companies. The Firm has NOT engaged in investment banking relationships with NURO in the prior 12 months, as a manager or co-manager of a public offering and has received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from each of the subject companies. The Firm may have received other compensation from the subject companies in the last 12 months for services unrelated to investment banking.

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- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	<b># of Companies</b>	<b>% of Total</b>	<b># of Companies</b>	<b>% of Totals</b>
Market Outperform (Buy)	2	33%	1	50%
Market Perform (Neutral)	0	0%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Rating Suspensions*	4	67%	4	100%
<b>Total</b>	<b>6</b>	<b>100%</b>	<b>5</b>	<b>83%</b>

\*Suspensions are ratings under review for possible change due to unusual market-moving news, and/or analyst departure/change

### **Analyst Certification:**

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.