UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2022

OR

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

For the transition period from to

Commission file number 001-40797

PROCEPT BioRobotics Corporation

(Exact name of registrant as specified in its charter)

Delaware			**26-0199180**
(State or other jurisdiction of incorporation or organization)			(I.R.S. Employer Identification No.)
900 Island Drive	**Redwood City**	**CA**	**94065**
(Address of Principal Executive Offices)			(Zip Code)

(650) 232-7200

(Registrant's telephone number, including area code)

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, $0.00001 par value per share	PRCT	Nasdaq Global Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		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 Act). Yes ☐ No ☒

The registrant had outstanding 44,173,322 shares of common stock as of April 30, 2022.

PROCEPT BioRobotics Corporation

Form 10-Q – QUARTERLY REPORT

For the Quarter Ended March 31, 2022

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements other than statements of historical facts contained in this Quarterly Report are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” "can," “will,” “would,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential,” or “continue” or the negative of these terms or other similar expressions, although not all forward-looking statements contain these words. All statements other than statements of historical facts contained in this Quarterly Report, including without limitation statements regarding our business model and strategic plans for our products, technologies and business, including our implementation thereof, the impact on our business, financial condition and results of operations from the ongoing and global COVID-19 pandemic, or any other pandemic, epidemic or outbreak of an infectious disease in the United States or worldwide, the timing of and our ability to obtain and maintain regulatory approvals, our commercialization, marketing and manufacturing capabilities and strategy, our expectations about the commercial success and market acceptance of our products, the sufficiency of our cash, cash equivalents and short-term investments, and the plans and objectives of management for future operations and capital expenditures are forward-looking statements.

The forward-looking statements in this Quarterly Report are only predictions and are based largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of known and unknown risks, uncertainties, and assumptions, including those described under the sections in this Quarterly Report entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely upon these forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance, or achievements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise. We intend the forward-looking statements contained in this Quarterly Report to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

PROCEPT BioRobotics Corporation
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	March 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 284,288	$ 304,320
Accounts receivable, net	6,992	4,464
Inventory	12,629	13,147
Prepaid expenses and other current assets	4,070	4,242
Total current assets	307,979	326,173
Restricted cash	3,814	777
Property and equipment, net	4,560	5,045
Operating lease right-of-use assets, net	2,877	3,279
Intangible assets, net	1,682	1,750
Total assets	$ 320,912	$ 337,024
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,628	$ 2,029
Accrued compensation	4,586	6,475
Deferred revenue	1,368	1,025
Operating lease – current portion	2,181	2,105
Other current liabilities	3,994	4,608
Total current liabilities	14,757	16,242
Note payable – non-current portion	50,254	50,004
Operating lease – non-current portion	1,418	1,991
Loan facility derivative liability	1,533	1,496
Other non-current liabilities	200	200
Total liabilities	68,162	69,933
Commitments and contingencies (see Note 9)		
Stockholders’ equity:		
Preferred stock, $0.00001 par value;		
Authorized shares: 10,000 at March 31, 2022 and December 31, 2021		
Issued and outstanding shares: none at March 31, 2022 and December 31, 2021	—	—
Common stock, $0.00001 par value;		
Authorized shares: 300,000 at March 31, 2022 and December 31, 2021		
Issued and outstanding shares: 44,077 and 43,676 at March 31, 2022 and December 31, 2021, respectively	—	—
Additional paid-in capital	531,509	528,666
Accumulated other comprehensive loss	(53)	(54)
Accumulated deficit	(278,706)	(261,521)
Total stockholders’ equity	252,750	267,091
Total liabilities and stockholders’ equity	$ 320,912	$ 337,024

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

PROCEPT BioRobotics Corporation
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31,	
	2022	2021
Revenue	$ 14,197	$ 7,192
Cost of sales	6,505	3,665
Gross profit	7,692	3,527
Operating expenses:		
Research and development	5,011	4,522
Selling, general and administrative	18,385	10,349
Total operating expenses	23,396	14,871
Loss from operations	(15,704)	(11,344)
Interest expense	(1,421)	(1,464)
Interest and other income (expense), net	(60)	(14)
Net loss	$ (17,185)	$ (12,822)
Net loss per share, basic and diluted	$ (0.39)	$ (2.65)
Weighted-average common shares used to compute net loss per share attributable to common shareholders, basic and diluted	43,855	4,830
Other comprehensive loss:		
Unrealized gain (loss) on cash equivalents	1	(16)
Comprehensive loss	$ (17,184)	$ (12,838)

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

PROCEPT BioRobotics Corporation
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)
(unaudited)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance at December 31, 2021	—	$ —	43,676	$ —	$528,666	$ (54)	$ (261,521)	$ 267,091
Issuance upon exercise of options	—	—	401	—	1,291	—	—	1,291
Stock-based compensation expense	—	—	—	—	1,552	—	—	1,552
Unrealized loss on cash equivalents	—	—	—	—	—	1	—	1
Net loss	—	—	—	—	—	—	(17,185)	(17,185)
Balance at March 31, 2022	—	— $ —	44,077	$ —	$531,509	$ (53)	$ (278,706)	$ 252,750
Balance at December 31, 2020	25,402	$243,854	4,713	$ —	$ 18,788	$ (14)	$ (201,668)	$ (182,894)
Issuance upon exercise of options	—	—	504	—	1,225	—	—	1,225
Stock-based compensation expense	—	—	—	—	650	—	—	650
Unrealized loss on cash equivalents	—	—	—	—	—	(16)	—	(16)
Net loss	—	—	—	—	—	—	(12,822)	(12,822)
Balance at March 31, 2021	25,402	$243,854	5,217	$ —	$ 20,663	$ (30)	$ (214,490)	$ (193,857)

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

PROCEPT BioRobotics Corporation
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (17,185)	$ (12,822)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	758	915
Stock-based compensation expense	1,552	650
Change in fair value of redeemable convertible preferred stock warrants and derivative liability	37	(280)
Non-cash lease adjustment	(97)	(79)
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,529)	(2,584)
Inventory	517	(926)
Prepaid expenses and other current assets	177	(420)
Accounts payable	448	701
Accrued compensation	(1,889)	(815)
Accrued interest expense	250	(92)
Deferred revenue	343	173
Other liabilities	(613)	381
Net cash used in operating activities	(18,231)	(15,198)
Cash flows from investing activities:		
Purchases of property and equipment	(55)	(39)
Net cash used in investing activities	(55)	(39)
Cash flows from financing activities:		
Proceeds from issuance of common stock from the exercise of stock options	1,291	1,225
Net cash provided by financing activities	1,291	1,225
Net decrease in cash, cash equivalents and restricted cash	(16,995)	(14,012)
Cash, cash equivalents and restricted cash		
Beginning of the period	305,097	100,907
End of the period	$ 288,102	$ 86,895
Reconciliation of cash, cash equivalents and restricted cash to balance sheets:		
Cash and cash equivalents	$ 284,288	$ 86,118
Restricted cash	3,814	777
Cash, cash equivalents and restricted cash in balance sheets	$ 288,102	$ 86,895
Supplemental cash flow information		
Interest paid	$ 1,171	$ 1,171
Non-cash investing and financing activities		
Transfer of evaluation units from inventory to property and equipment, net	$ —	$ (190)
Property and equipment included in accounts payable and accrued expenses	$ 351	$ 200

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

PROCEPT BioRobotics Corporation
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization

Description of Business

PROCEPT BioRobotics Corporation (the "Company") is a surgical robotics company focused on advancing patient care by developing transformative solutions in urology. It develops, manufactures and sells the AquaBeam Robotic System, an advanced, image-guided, surgical robotic system for use in minimally invasive urologic surgery, with an initial focus on treating benign prostatic hyperplasia, or BPH. BPH is the most common prostate disease and impacts approximately 40 million men in the United States. The AquaBeam Robotic System employs a single-use disposable handpiece to deliver the Company's proprietary Aquablation therapy, which combines real-time, multi-dimensional imaging, personalized treatment planning, automated robotics and heat-free waterjet ablation for targeted and rapid removal of prostate tissue. The Company designed its AquaBeam Robotic System to enable consistent and reproducible BPH surgery outcomes. The Company received U.S. Food and Drug Administration clearance in December 2017 to market its AquaBeam Robotic System.

Liquidity

As of March 31, 2022 and December 31, 2021, the Company had cash and cash equivalents of $284.3 million and $304.3 million, respectively, and an accumulated deficit of $278.7 million and $261.5 million, respectively. In September 2021, the Company completed its initial public offering ("IPO") for net proceeds of approximately $172.4 million, after deducting underwriting discounts and commissions and offering expenses. Since its inception, the Company has financed its operations with a combination of debt and equity financing arrangements. The Company expects its cash and cash equivalents, revenue and available debt financing arrangements will be sufficient to fund its operations through at least the next twelve months from the issuance date of these financial statements. The Company has not achieved positive cashflow from operations to date and expects to continue incurring losses for the foreseeable future as it focuses on growing its business.

The COVID-19 pandemic and the resulting economic downturn are affecting business conditions in the industry in which the Company operates. In response to the pandemic, many state and local governments in the United States issued orders that temporarily precluded elective medical procedures in order to conserve scarce health system resources. The Company has taken necessary precautions to safeguard its employees, patients, customers, and other stakeholders from the COVID-19 pandemic, while maintaining business continuity to support its patients, customers and employees. The timing, extent and continuation of any increase in procedures, and any corresponding increase in sales of the Company's products, and whether there could be a future decrease in the current level of procedures as a result of the COVID-19 pandemic or otherwise, remain uncertain and are subject to a variety of factors.

2. Summary of Significant Accounting Policies

Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). These condensed consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures reported in the condensed consolidated financial statements. Management uses significant judgment when making estimates related to its common stock valuation in periods before the Company's IPO and related stock-based compensation expense, right-of-use lease asset, lease liability, the valuations of the redeemable convertible preferred stock warrant liability and

loan facility derivative liability, as well as certain accrued liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

Initial Public Offering

In September 2021, the Company completed its IPO by issuing 6,556,000 shares of common stock, and the exercise of the underwriters option for 983,400 shares, at an offering price of $25.00 per share, for total net proceeds of approximately $172.4 million, after deducting underwriting discounts and commissions of $13.2 million and offering expenses of $2.9 million. Offering costs are capitalized, and consist of fees and expenses incurred in connection with the sale of common stock in its IPO, including legal, accounting, printing and other IPO-related costs. Upon completion of its IPO, these deferred offering costs were reclassified to stockholders' equity and recorded against the proceeds from the offering. In addition, all 29,912,264 shares of its then-outstanding redeemable convertible preferred stock automatically converted into 29,912,264 shares of common stock and it reclassified $329.5 million of redeemable convertible preferred stock to additional paid-in capital on its condensed consolidated balance sheet.

Unaudited Interim Financial Statements

The accompanying balance sheet as of March 31, 2022, the statements of operations and comprehensive loss and cash flows for the three months ended March 31, 2022 and 2021, and the statements of redeemable convertible preferred stock and stockholders' equity (deficit) as of March 31, 2022 and 2021, are unaudited. The financial data and other information disclosed in these notes to the financial statements related to March 31, 2022, and the three months ended March 31, 2022 and 2021, are also unaudited. The accompanying balance sheet as of December 31, 2021 have been derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K ("Annual Report") filed with the Securities and Exchange Commission.

The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to a fair statement of the Company's financial position as of March 31, 2022, and the results of its operations and cash flows for the three months ended March 31, 2022 and 2021. The results for the three months ended March 31, 2022, are not necessarily indicative of results to be expected for the year ending December 31, 2022, or for any other interim period or for any future year and should be read in conjunction with the annual consolidated financial statements included in the Company's Annual Report.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash in banks and highly liquid securities, which are readily convertible to cash, that mature within 90 days or less from the original date of purchase, to be cash equivalents, which include money market funds and treasury securities.

Cash equivalents are considered available-for-sale marketable securities and are recorded at fair value, based on quoted market prices. Unrealized gains and losses are recorded in other comprehensive income (loss) and included as a separate component of stockholders' equity (deficit).

Restricted cash is primarily related to the Company's letter of credit for the lease of its new corporate headquarters.

Fair Value of Financial Instruments

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash and cash equivalents, and accounts receivable, accounts payable and accrued liabilities, which approximate fair value due to their relatively short maturities as well as the redeemable convertible preferred stock warrant liability and loan facility derivative liability. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is

a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1- Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2- Other inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant inputs are observable in the market or can be derived from observable market data.

Level 3- Unobservable inputs that are supported by little or no market activities, which would require the Company to develop its own assumptions.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following is a summary of assets and liabilities measured at fair value on a recurring basis (in thousands):

	March 31, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:								
Cash	$ 8,558	$ —	$ —	$ 8,558	$ 13,621	$ —	$ —	$ 13,621
Cash equivalents	275,730	—	—	275,730	290,699	—	—	290,699
Total cash and cash equivalents	$ 284,288	$ —	$ —	$ 284,288	$ 304,320	$ —	$ —	$ 304,320
Loan facility derivative liability	$ —	$ —	$ 1,533	$ 1,533	$ —	$ —	$ 1,496	$ 1,496

Cash equivalents consist primarily of money market funds and treasury securities.

There were no transfers in and out of Level 3 during the three months ended March 31, 2022 and year ended December 31, 2021.

Loan facility derivative liability

In connection with the Company's loan facility, the Company is obligated to pay a fee upon the earlier occurrence of a defined liquidity event, including but not limited to, a merger or sale of our assets or voting stock, or achieving a $200.0 million trailing twelve months revenue target, in each case, by September 2029**.** The fee is calculated at the time of the liquidity event occurrence to be $1.0 million if only the first installment has been drawn, $2.0 million if the first two installments have been drawn, $2.4 million if the first three installments have been drawn, or $3.0 million if all four installments have been drawn, in each case, upon the occurrence of the liquidity event. As of March 31, 2022, the Company has drawn on the first two installments. The Company has determined this fee is a freestanding derivative instrument. The $1.4 million fair value of this loan facility derivative was recorded as a debt discount and liability on the date of issuance in connection with obtaining additional financing as applicable and will be revalued every reporting period until the earlier occurrence of a defined liquidity event or achieving a revenue target by September 2029 or termination of such fee arrangement.

The following table sets forth a summary of the changes in the estimated fair value of the Company's loan facility derivative liability, classified as Level 3 (in thousands):

	Three Months Ended March 31,	
	2022	2021
Beginning of the period	$ 1,496	$ 1,782
Issued	—	—
Change in fair value	37	43
Payment of success fee	—	—
End of the period	$ 1,533	$ 1,825

The fair value of the loan facility derivative liability was determined using a discounted cash flow calculation discounted at 10%.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and, to a lesser extent, accounts receivable. The Company believes that credit risk in its accounts receivable is mitigated by its credit evaluation process, relatively short collection terms and diversity of its customer base. The Company generally does not require collateral and losses on accounts receivable have historically been within management's expectations.

The Company's investment policy limits investments to certain types of debt securities issued by the U.S. government, its agencies, and institutions with investment-grade credit ratings, as well as corporate debt or commercial paper issued by the highest quality financial and non-financial companies, and places restrictions on maturities and concentration by type and issuer. The Company is exposed to credit risk in the event of a default by the financial institutions holding its cash and cash equivalents and issuers of investments to the extent recorded on the balance sheets. The Company has limited its credit risk associated with cash and cash equivalents by placing its investments with banks it believes are highly creditworthy and with highly rated investments.

Allowance for Doubtful Accounts

The Company provides for uncollectible accounts receivable by recording an allowance for doubtful accounts for balances deemed uncollectible. The Company evaluates the collectability of its accounts receivable based on known collection risks and historical experience. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations to the Company (e.g., bankruptcy filings, substantial downgrading of credit ratings), the Company records a specific allowance for bad debts against amounts due to reduce the carrying amount of accounts receivable to the amount it reasonably believes will be collected. The Company has not experienced any significant collection issues and the allowance for doubtful accounts has not been material.

Inventory

Inventories are valued at the lower of cost, computed on a first-in, first-out basis, or net realizable value. The allocation of production overhead to inventory costs is based on normal production capacity. Abnormal amounts of idle facility expense, freight, handling costs, and consumption are expensed as incurred, and not included in overhead. The Company maintains provisions for excess and obsolete inventory based on management's estimates of forecasted demand and, where applicable, product expiration. In 2021, the Company had initiated a voluntary recall for a limited number of handpieces due to certain issues related to supply chain and manufacturing processes, of which the provision recognized was not material.

Property and Equipment and Intangible Assets

Property and equipment and intangible assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization for property and equipment are determined using the straight-line method over the

estimated useful lives of the respective assets, generally three to five years. The Company reclassifies inventory used at customer sites for evaluation purposes to property and equipment due to a limited history of sales of evaluation units. Amortization of intangible assets are determined using the straight-line method over the estimated useful lives, generally through the patent expiration date. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the lease. Maintenance and repairs are charged to operating expenses as incurred.

Impairment of Long-Lived Assets

Long-lived assets consist primarily of property and equipment and intangible assets, net, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require that a long-lived asset be tested for possible impairment, the Company compares the undiscounted cash flows expected to be generated by the asset group to the carrying amount of the asset group. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. The Company determines fair value using the income approach based on the present value of expected future cash flows or other appropriate measures of estimated fair value. The Company's cash flow assumptions consider historical and forecasted revenue and operating costs and other relevant factors. During the three months ended March 31, 2022 and 2021, the Company has not recorded impairment charges on its long-lived assets.

Deferred Revenue

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company records deferred revenue when revenue will be recognized subsequent to invoicing. Service agreements are generally invoiced annually at the beginning of each coverage period and recorded as deferred revenue and recognized as revenue ratably over the coverage period. Deferred revenue that will be recognized during the twelve months following the balance sheet date is recorded as the current portion of deferred revenue, and the remaining portion, if any, would be recorded as non-current.

Redeemable Convertible Preferred Stock

The Company records redeemable convertible preferred stock at fair value on the date of issuance, net of issuance costs. The redeemable convertible preferred stock is recorded outside of permanent equity because it contains liquidation features that are not solely within the Company's control. The Company determined that the carrying values of the redeemable convertible preferred stock should not be adjusted to the liquidation preferences because it is uncertain whether or when an event would occur that would obligate the Company to pay the liquidation preferences to holders of shares of redeemable convertible preferred stock. Subsequent adjustments to the carrying values of the redeemable convertible preferred stock to the liquidation preferences will be made only when it is probable that the redeemable convertible preferred stock will become redeemable. Upon the completion of the Company's IPO in September 2021, all 29,912,264 shares of its then-outstanding redeemable convertible preferred stock automatically converted into 29,912,264 shares of common stock and it reclassified $329.5 million of redeemable convertible preferred stock to additional paid-in capital on its condensed consolidated balance sheet.

Loan Facility Derivative Liability

The Company has determined that its obligation to pay success fees to a lender upon a successful liquidation event or achieving a revenue target represents freestanding financial instruments. The instruments are classified as a non-current liability in the consolidated balance sheets and are subject to remeasurement at each financial reporting date. Any change in fair value was recognized through other income (expense) in the condensed consolidated statements of operations and comprehensive loss.

Leases

For agreements with a term of more than twelve months, the Company determines if an agreement contains a lease at inception. Operating lease liabilities represent an obligation to make lease payments arising from the lease agreement. Operating lease liabilities are recognized at the lease commencement date based on the present value of

lease payments over the remaining lease term. In determining the present value of lease payments, the Company estimates its incremental borrowing rate as the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term, of an amount equal to the lease payments in a similar economic environment. Operating lease liabilities are included in the Company's consolidated balance sheet. Right-of-use assets represent our right to use an underlying asset for the lease term and are classified as non-current assets. Lease expense is recognized on a straight-line basis over the expected lease term in the Company's consolidated statements of operations and comprehensive loss.

The Company has not elected to separate lease and non-lease components for any leases within its existing classes of assets and, as a result, records a right-of-use asset and lease liability based on the present value of the future minimum lease payments over the term at commencement date. Variable lease payments are expensed as incurred. The Company has also elected to not apply the recognition requirement to any leases within its existing classes of assets with a term of twelve months or less and does not include an option to purchase the underlying asset that the Company is reasonably certain to exercise.

The Company has lessor arrangements with customers for a fixed monthly fee with no non-lease components, typically for three-twelve months. These arrangements are accounted for as an operating lease in accordance with ASC 842. These arrangements and related revenue are immaterial to the periods presented.

Revenue Recognition

Revenue is derived primarily from the sales of the AquaBeam® Robotic Systems, and handpieces that are for one-time use during each surgery using the AquaBeam Robotic System. The AquaBeam Robotic System contains both software and non-software components that are delivered together as a single product and generally contain a one-year warranty.

To determine revenue recognition for arrangements that the Company determines are within the scope of ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), the Company performs the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when, or as, the Company satisfies the performance obligations. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct based on the contract.

The contracts are typically in the form of an agreement and a purchase order from the customer. The Company's AquaBeam Robotic System sales generally contain multiple products and services and can include a combination of the following performance obligations: robotic system, handpieces and consumables, and service.

The Company determines the transaction price it expects to be entitled to in exchange for transferring the promised product to the customer, which is based on the invoiced price for the products. All prices are at fixed amounts per the sales agreement with the customer and there are generally no discounts, rebates or other price concessions or a right of return, once the agreement is signed.

For multiple-element arrangements, revenue is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are based on observable prices at which the Company separately sells the products or services. If a standalone selling price is not directly observable, then the Company estimates the standalone selling price considering market conditions and entity-specific factors including, but not limited to, features and functionality of the products and services, geographies, and type of customer. The Company regularly reviews standalone selling prices and updates these estimates as necessary.

The Company recognizes revenue as the performance obligations are satisfied by transferring control of the product or service to a customer. The Company generally recognizes revenue for the performance obligations at the following points in time:

AquaBeam Robotic Systems - For systems (including system components and system accessories) sold directly to end customers, revenue is recognized when the Company transfers control to the customer, which is generally at the time of delivery. Systems rented for a fixed monthly fee during an evaluation period, typically three-twelve months, are recognized as revenue straight-line during the lease term, in accordance with ASC 842, and are not material. For systems sold following an evaluation period, revenue is recognized generally once sales terms are mutually agreed (as the system is already installed at the customer site). For systems sold through distributors, revenue is recognized generally at the time of delivery. The Company's system arrangements generally do not provide a right of return. The systems are generally covered by a one-year service agreement included in the warranty. The service agreements have a stand alone selling price and are typically recognized as deferred revenue and amortized over the one-year service period.

Hand pieces and other consumables - Revenue from sales of handpieces and other consumables is recognized when control is transferred to the customers, which generally occurs at the time of shipment but also occurs at the time of delivery.

Service - Service revenue, inclusive of the amounts associated with the AquaBeam Robotic System warranties, is recognized over the term of the service period, as the customer benefits from the services throughout the service period.

The Company has determined that certain promises in the multiple-element arrangements, such as installation, training and certain ancillary products, are immaterial, and/or do not represent separate performance obligations for which transaction price is allocated.

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company records deferred revenue when revenue is recognized subsequent to invoicing, such as service contracts, which are recognized ratably as revenue over the performance period.

The Company's typical payment terms are between approximately 30 to 90 days. The Company expenses shipping and handling costs as incurred and includes them in the cost of sales. In those cases where shipping and handling costs are billed to customers, the Company classifies the amounts billed as a component of revenue. Taxes collected from customers and remitted to governmental authorities are excluded from revenue. The Company expenses any incremental costs of obtaining a contract, including but not limited to, sales commissions, as and when incurred as the expected amortization period of the incremental costs would have been less than one year and are reported in selling, general and administrative expense in the statements of operations and comprehensive loss.

The following table presents revenue disaggregated by type and geography (in thousands):

	Three Months Ended March 31,	
	2022	2021
U.S.		
System sales and rentals	$ 7,754	$ 4,559
Handpieces and other consumables	4,444	1,622
Service	359	72
Total U.S. revenue	12,557	6,253
Outside of U.S.		
System sales and rentals	742	272
Handpieces and other consumables	745	603
Service	153	64
Total outside of U.S. revenue	1,640	939
Total revenue	$ 14,197	$ 7,192

Cost of Sales

Cost of sales consists primarily of material costs, direct labor and manufacturing overhead costs, including stock-based compensation. A significant portion of the Company's cost of sales currently consists of manufacturing overhead costs. These overhead costs include the cost of quality assurance, material procurement, inventory control, facilities, equipment and operations supervision and management. Cost of sales also includes depreciation expense for production equipment, warranty, including any recalls, and field service costs, and purchased intangibles and certain direct costs such as shipping costs.

Research and Development

Research and development costs are expensed as incurred. Research and development costs consist primarily of engineering, product development, and regulatory affairs, consulting services, materials, depreciation and other costs associated with products and technologies being developed, including employee and non-employee compensation, stock-based compensation, supplies, quality assurance expenses, related travel expenses and facilities expenses.

Stock-Based Compensation

The Company maintains an equity incentive plan to provide long-term incentives for employees, consultants and members of the board of directors. The plan allows for the issuance of non-statutory and incentive stock options and restricted stock units to employees and non-employee directors, and non-statutory stock options to consultants.

The Company is required to determine the fair value of equity incentive awards and recognize compensation expense for all equity incentive awards made to employees and directors, including employee stock options and restricted stock units. Stock-based compensation expense is recognized over the requisite service period in the statements of operations and comprehensive loss. The Company uses the straight-line method for expense attribution.

The valuation model used for calculating the fair value of awards for stock-based compensation expense is the Black-Scholes option-pricing model (the "Black-Scholes model"). The Black-Scholes model requires the Company to make assumptions and judgments about the variables used in the calculation, including the fair value of the Company's common stock, the expected term (weighted-average period of time that the options granted are expected to be outstanding), the expected volatility of common stock, an assumed risk-free interest rate and an expected dividend rate.

Prior to the Company's IPO, the fair value of the Company's common stock underlying the stock options was determined by the Company's board of directors ("Board"). Because there was no public market for the Company's common stock, the Board determined the fair value of the Company's common stock at the time of grant of the option by considering a number of objective and subjective factors, including valuations of comparable companies, sales of the Company's redeemable convertible preferred stock, operating and financial performance and the general and industry-specific economic outlook. The Company uses the "simplified method" to determine the expected term of the stock option. Expected volatility is based on an average of the historical volatilities of the common stock of publicly-traded companies with characteristics similar to those of the Company. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option. The Company has elected to account for forfeitures when they occur.

Common Stock Valuation

The Company's intent has been to grant all options with an exercise price not less than the fair value of its common stock underlying those options on the date of grant. Prior to its IPO, the Company has determined the estimated fair value of its common stock at each valuation date in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* (the "Practice Aid"). The Company's board of directors, with the assistance of

management, developed these valuations using significant judgment and taking into account numerous factors, including:

- valuations of its common stock with the assistance of independent third-party valuation specialists;
- the stage of development and business strategy, including the status of research and development efforts, of its products and product candidates, and the material risks related to its business and industry;
- the results of operations and financial position, including its levels of available capital resources;
- the valuation of publicly traded companies in the life sciences and medical device sectors, as well as recently completed mergers and acquisitions of peer companies;
- the prices of its redeemable convertible preferred stock sold to investors in arm's length transactions and the rights, preferences, and privileges of its redeemable convertible preferred stock relative to those of its common stock;
- the likelihood of achieving a liquidity event for the holders of its common stock, such as an initial public offering or a sale of the Company given prevailing market conditions;
- the inability of the Company's stockholders to freely trade its common stock in the public markets, resulting in a discount to reflect the lack of marketability of the Company's common stock based on the weighted-average expected time to liquidity.
- trends and developments in its industry; and
- external market conditions affecting the life sciences and medical device industry sectors.

The Company's board of directors determined the fair value of its common stock by first determining the enterprise value of the Company's business using the market approach, income approach or from the value implied by the latest round of equity financing, and then allocating the value among the various classes of its equity securities to derive a per share value of its common stock. The Practice Aid identifies various available methods for allocating enterprise value across classes and series of capital stock to determine the estimated fair value of common stock at each valuation date.

For all options granted prior to the Company's IPO in September 2021, the Board allocated the enterprise value based on the option pricing method ("OPM"). OPM treats the rights of the holders of preferred and common stock as equivalent to call options on any value of the enterprise above certain break points of value based upon the liquidation preferences of the holders of preferred stock, as well as their rights to participation and conversion. Thus, the estimated value of the common stock can be determined by estimating the value of its portion of each of these call option rights. When valuing options granted around the time of an equity financing that is considered arms-length, OPM derived the Company's equity value of a company from the price of the securities issued by the Company in the equity financing. Following the completion of the Company's IPO in September 2021, the fair value of the Company's common stock is determined based on the closing price of its common stock on The Nasdaq Global Market.

Advertising Expenses

The Company expenses the costs of advertising, including promotional expenses, as incurred. Advertising expenses were not significant.

Defined Contribution Plan

The Company has a defined contribution retirement savings plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to defer a portion of their annual compensation on a pre-tax basis. The Company is authorized to make matching contributions but has not made such contributions for the three months ended March 31, 2022 and 2021.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. Valuation allowances against deferred tax assets are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Currently, the Company has recorded a full valuation allowance against its deferred tax assets and there is no provision for income taxes, as the Company has incurred operating losses to-date. The Company's policy is to record interest and penalties expense related to uncertain tax positions as a component of income tax expense in the statement of operations. To date, there have been no interest or penalties charged in relation to the unrecognized tax benefits.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock and common stock equivalent shares from dilutive stock options and common stock warrants outstanding during the period. Because the Company has reported a net loss for all periods presented, diluted net loss per share is the same as basic net loss per share for those periods as all potentially dilutive securities were antidilutive in those periods.

The Company allocates no loss to participating securities because they have no contractual obligation to share in the losses of the Company. The shares of the Company's redeemable convertible preferred stock participated in any dividends declared by the Company and were therefore considered to be participating securities.

Upon the completion of the Company's IPO in September 2021, all 29,912,264 shares of its then-outstanding redeemable convertible preferred stock automatically converted into 29,912,264 shares of common stock.

Net loss per share was determined as follows (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2022	2021
Net loss	$ (17,185)	$ (12,822)
Weighted-average common stock outstanding	43,855	4,830
Net loss per share, basic and diluted	$ (0.39)	$ (2.65)

The following potentially dilutive securities outstanding have been excluded from the computations of weighted-average shares outstanding because such securities have an antidilutive impact due to losses reported (in common stock equivalent shares, in thousands):

	March 31,	
	2022	2021
Redeemable convertible preferred stock outstanding	—	25,402
Redeemable convertible preferred stock warrants	—	72
Common stock options	6,023	6,445
Restricted stock units	198	—
Employee stock purchase plan	193	—
Total	6,414	31,919

Comprehensive Loss

Comprehensive loss consists of net loss and changes in unrealized gains and losses on cash equivalents and available-for-sale marketable securities. Accumulated other comprehensive income (loss) is presented in the accompanying balance sheets, when applicable.

Segment, Geographical and Customer Concentration

The Company operates as a single operating segment. The Company's chief operating decision maker, its Chief Executive Officer, reviews financial information on an aggregate basis for the purposes of allocating resources and evaluating financial performance. The Company's assets are primarily based in the United States.

No customers accounted for more than 10% of revenue during the three months ended March 31, 2022. Two customers accounted for 11% and 10% of revenue during the three months ended March 31, 2021.

One customer accounted for 11% of accounts receivable at March 31, 2022 and December 31, 2021.

JOBS Act Accounting Election

The Company is an emerging growth company, as defined in the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to avail itself of this exemption and, therefore, for new or revised accounting standards applicable to public companies, the Company will be subject to an extended transition period until those standards would otherwise apply to private companies.

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-4, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-4"). The amendments in ASU 2020-4 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. These amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. These amendments are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of the adoption of ASU 2020-4 on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial assets and certain other instruments, including but not limited to available-for-sale debt securities. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security. ASU 2016-13 requires a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. In November 2019, the FASB issued ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842): Effective Dates, which defers the effective date of ASU 2016-13 to fiscal years beginning after December 15, 2022 for all entities except SEC reporting companies that are not smaller reporting companies. ASU 2016-13 will be effective for the Company beginning January 1, 2023. The Company is currently evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial statements.

3. Composition of Certain Consolidated Financial Statement Items

Inventory (in thousands):

	March 31, 2022	December 31, 2021
Raw materials	$ 5,401	$ 6,740
Work-in-process	323	905
Finished goods	6,905	5,502
Total inventory	$ 12,629	$ 13,147

Prepaid Expenses and Other Current Assets (in thousands):

	March 31, 2022	December 31, 2021
Insurance	$ 1,901	$ 2,333
Inventory	539	830
Software	683	428
Rent	252	253
Other	695	398
Total prepaid expenses and other current assets	$ 4,070	$ 4,242

Property and Equipment, Net (in thousands):

	March 31, 2022	December 31, 2021
Laboratory, manufacturing and computer equipment, and furniture and fixtures	$ 3,080	$ 2,874
Rental equipment	984	1,082
Leasehold improvements	4,941	4,941
Evaluation units	2,841	2,842
Total property and equipment	11,846	11,739
Less: accumulated depreciation and amortization	(7,286)	(6,694)
Total property and equipment, net	$ 4,560	$ 5,045

Other Current Liabilities (in thousands):

	March 31, 2022	December 31, 2021
Accrued purchases	$ 219	$ 1,105
Customer and supplier deposits	1,035	741
Professional services	542	600
Sales and other taxes	684	515
Interest	403	405
Travel expenses	305	281
Clinical trial expenses	127	183
Other	679	778
Total other current liabilities	$ 3,994	$ 4,608

As of March 31, 2022 and December 31, 2021, other non-current liabilities consisted of an asset retirement obligation for the facility lease.

Interest and Other Income (Expense), net (in thousands):

	Three Months Ended March 31,	
	2022	2021
Interest income	$ 36	$ 14
Decrease (increase) in fair value of preferred stock warrants	—	24
Decrease (increase) in fair value of loan facility derivative liability	(37)	(43)
Other	(59)	(9)
Total interest and other income (expense), net	$ (60)	$ (14)

4. Intangible Assets

In March 2019, the Company entered into a license agreement with HydroCision, Inc. This agreement grants the Company an exclusive, perpetual, irrevocable, worldwide, fully paid-up license to develop, manufacture and commercialize products in the field of urology using the patented technology and know-how controlled by HydroCision as of the effective date and as well as new patented technology developed by HydroCision that cover certain activities and improvements that relate to the use of fluid jet technology in connection with the licensed products during the period commencing on the effective date and ending on the earlier of the date that the Company ceases to use HydroCision's existing contract manufacturers and the third anniversary of the effective date. Also included is the right to utilize HydroCision's contract manufacturers, if desired. The consideration paid was a one-time upfront payment of $2.5 million, as well as allowing HydroCision (a reciprocal license) to use any new patented technology and know-how developed by the Company relating to the HydroCision patented technology and know-how in the field of urology for HydroCision use outside the field of urology. HydroCision will pay for any patent maintenance fees on HydroCision's licensed patents. As of March 31, 2022 and December 31, 2021, accumulated amortization was $0.9 million and $0.8 million, respectively, and the net carrying amount is expected to be amortized at a rate of $0.3 million per year until fully amortized.

Amortization expense for intangible assets was $0.1 million for each of the three months ended March 31, 2022 and 2021.

5. Loan Facility

In September 2019, the Company entered into a loan facility for up to $75.0 million available in four installments. The Company borrowed $25.0 million in September 2019. An additional $25.0 million was borrowed in March 2020. The third installment of $10.0 million was originally available for draw through March 31, 2021 contingent upon achieving $20.0 million in trailing six months revenue. In January 2021, the third installment was amended to be available for draw through June 30, 2021 contingent upon achieving $6.4 million trailing six months revenue. The remaining $15.0 million was originally available for draw through June 30, 2021 and is contingent upon achieving $25.0 million in trailing six months revenue. In January 2021, this installment was amended to be available for draw through June 30, 2022. The facility bears an interest rate of 9.37%, which is 7.17% plus the greater of 2.2% or 30-day LIBOR. The initial term of the facility is 60 months with interest-only payments each month for 24 months followed by 36 months amortization of principal and interest. In January 2021, the interest-only period was amended to 36 months followed by 24 months amortization (principal and interest) beginning October 1, 2022 since the amended trailing six months target revenue of $6.4 million was achieved, and accordingly, the current portion of the amount due was reclassified to non-current. Upon drawing the final $15.0 million tranche, interest-only period is extended 12 months followed by 24 months amortization of principal and interest. Upon the completion of the Company raising over $50.0 million in its IPO in September 2021, interest-only payments were extended an additional 12 months followed by 12 months amortization of principal and interest. Substantially all assets of the Company are pledged as collateral. Commencing with the earlier of June 30, 2021 and the month following the funding of either the third or final installment, the Company is required to achieve revenues for the previous six months ended equal to the greater of (1) 70% of the forecast for the commensurate period, (2) $15.0 million if neither third or final installments have been drawn, (3) $20.0 million if the third but not final installment has been drawn and (4) $25.0 million if both the third and final installments have been drawn.

The loan facility includes certain fees payable to the lender recorded as a loan discount that are accrued and amortized to interest expense during the loan term. A 6% final payment fee of each funded tranche is payable at the earlier of prepayment or loan maturity and a 0.25% facility fee paid at each funded tranche. A prepayment fee was originally payable if the loan is paid before maturity in the amount of 3% of loans outstanding if paid in full during first 12 months, 2% if loan is paid in full during second twelve months, or 1% if loan is paid in full thereafter before maturity. In January 2021, the prepayment fee was removed as part of the amendments. In addition, the Company should pay the lender's loan initiation fees and a fee upon the earlier occurrence of a defined liquidity event, including but not limited to, a merger or sale of the Company's assets or voting stock, or achieving a $200 million trailing twelve months revenue target, in each case, by September 2029**.** The success fees are calculated at the time of the liquidity event occurrence to be $1.0 million if only the first installment has been drawn, $2.0 million if the first two installments have been drawn, $2.4 million if the first three installments have been drawn, or $3.0 million if all four installments have been drawn, in each case, upon the occurrence of the defined liquidity event. As of March 31, 2022, the Company has drawn on the first two installments. The Company determined that this obligation to pay success fees represents freestanding financial instruments.

The amendments in January 2021 were accounted for as a debt modification under ASC 470-50-40 as the changes in the debt terms are not considered substantial, and thus no gain or loss was recorded and a new effective interest rate was established based on the carrying value of the loan and the revised cash flows.

6. Redeemable Convertible Preferred Stock Warrants

In June 2017, in connection with the issuance of convertible notes, the Company issued 108,145 redeemable convertible preferred stock warrants that were exercisable into Series E or the next round of redeemable convertible preferred stock. During the three months ended March 31, 2021, no warrants were exercised, and 71,705 were outstanding at March 31, 2021. Upon the completion of the Company's IPO in September 2021, 62,454 warrants were exercised and the remaining unexercised warrants expired.

7. Redeemable Convertible Preferred Stock

A summary of the Company's redeemable convertible preferred stock are as follows:

	March 31, 2021		
Series	Shares Authorized	Shares Issued and Outstanding	Carrying Value (in thousands)
A	1,243,223	1,104,728	$ 2,781
B	1,841,805	1,543,804	5,404
C	1,564,851	1,564,851	7,073
D	8,245,295	7,547,542	36,879
E	8,825,653	8,414,496	115,229
F	5,263,157	5,226,981	76,488
Total	26,983,984	25,402,402	$ 243,854

Upon the completion of the Company's IPO in September 2021, all 29,912,264 shares of its then-outstanding redeemable convertible preferred stock automatically converted into 29,912,264 shares of common stock and it reclassified $329.5 million of redeemable convertible preferred stock to additional paid-in capital on our condensed consolidated balance sheet.

8. Stockholder's Equity

2021 Equity Incentive Award Plan

In September 2021, the Company adopted the 2021 Equity Incentive Award Plan (the "2021 Plan"), which allows for the granting of stock options and stock purchase rights to the employees, members of the board of directors, and consultants of the Company. A total of 3,303,910 shares of common stock were initially reserved for

issuance under the 2021 Plan. Options granted under the 2021 Plan may be either incentive stock options ("ISOs") or nonqualified stock options ("NSOs"). ISOs may be granted only to the Company's employees, including officers and directors who are also employees. NSOs may be granted to employees and consultants.

Options under the 2021 Plan may be granted for periods of up to 10 years and at prices no less than 100% of the estimated fair value of the shares on the date of grant as determined by the board of directors, provided, however, that the exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant.

Granted options for newly hired employees usually vest over four years monthly with a one-year cliff vesting, and follow-on options vest monthly over four years with no cliff vesting. Granted restricted stock units for newly hired employees and follow-on restricted stock units usually vest over 4 years annually. Options granted to consultants have various vesting schedules depending on the underlying consulting arrangement and anticipated period of service. As of March 31, 2022, 2.8 million shares are available for grant and 0.5 million awards outstanding under the 2021 Plan.

2008 Stock Plan

The Company ceased making awards under the 2008 Stock Plan upon the effective date of the Company's IPO. In 2008, the Company adopted the 2008 Stock Plan (the "2008 Plan"), which allows for the granting of stock options and stock purchase rights to the employees, members of the board of directors, and consultants of the Company. Options granted under the 2008 Plan may be either incentive stock options ("ISOs") or nonqualified stock options ("NSOs"). ISOs may be granted only to the Company's employees, including officers and directors who are also employees. NSOs may be granted to employees and consultants. Options granted under the 2008 Plan will start expiring in August 2021. Options outstanding under the 2008 Plan will expire upon forfeiture. As of March 31, 2022, 5.7 million options were outstanding under the 2008 Plan.

A summary of the Company's stock option activity and related information are as follows (options in thousands):

	Three Months Ended March 31, 2022	
	Options	Price
Outstanding, beginning of period	6,365	$ 5.34
Granted	186	34.99
Exercised	(401)	3.21
Forfeited	(127)	5.51
Outstanding, end of period	6,023	6.40
Vested and expected to vest	6,023	6.40
Exercisable	3,092	4.39

As of March 31, 2022 and December 31, 2021, the aggregate pre-tax intrinsic value of options outstanding and exercisable was $94.6 million and $64.3 million, respectively, and options outstanding were $172.4 million and $125.7 million, respectively. The aggregate pre-tax intrinsic value of options exercised was $8.7 million and $1.5 million during the three months ended March 31, 2022 and 2021, respectively. The aggregate pre-tax intrinsic value was calculated as the difference between the exercise prices of the underlying options and the estimated fair value of the common stock on the date of exercise. The total fair value of options vested was $1.0 million and $1.1 million during the three months ended March 31, 2022 and 2021, respectively.

A summary of the Company's restricted stock unit activity and related information are as follows (restricted stock units in thousands):

	Three Months Ended March 31, 2022	
	Options	Price
Outstanding, beginning of period	35	$ 34.78
Awarded	164	29.65
Forfeited	(1)	18.96
Outstanding, end of period	198	30.61

As of March 31, 2022 and December 31, 2021, the aggregate pre-tax intrinsic value of restricted stock units outstanding was $6.9 million and $0.9 million, respectively, calculated based on the closing price of the Company's common stock at the end of the period, and the weighted-average remaining contractual term was 3.8 years and 3.6 years, respectively.

2021 Employee Stock Purchase Plan

In September 2021, the Company adopted the 2021 Employee Stock Purchase Plan (the "2021 ESPP"). The 2021 ESPP became effective on the effective date of the IPO. A total of 412,988 shares were initially reserved for issuance under the 2021 ESPP. Additionally, the number of shares of common stock reserved for issuance under the 2021 ESPP will increase automatically each year, beginning on January 1, 2022, and continuing through and including January 1, 2031, by the lesser of (1) 1% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year; or (2) such lesser number as determined by the Company's board of directors. The number of shares that may be issued under the 2021 ESPP shall not exceed a total of 10,526,315 shares. In November 2021, the Company implemented the 2021 ESPP. As of March 31, 2022, no shares have been issued under the 2021 ESPP.

The Company estimates the fair value of stock-based compensation on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model determines the fair value of stock-based awards based on the fair market value of the Company's common stock on the date of grant and is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the fair market value of the Company's common stock, volatility over the expected term of the awards and actual and projected employee stock option exercise behaviors. The Company has opted to use the "simplified method" for estimating the expected term of options, whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the option. Due to the Company's limited operating history and a lack of company specific historical and implied volatility data, the Company has based its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. When selecting these public companies on which it has based its expected stock price volatility, the Company generally selected companies with comparable characteristics to it, including enterprise value, stages of clinical development, risk profiles, position within the industry and with historical share price information sufficient to meet the expected life of the stock-based awards. The historical volatility data was computed using the daily closing prices for the selected companies' shares during the equivalent period of the calculated expected term of the share-based payments. The Company will continue to analyze the historical stock price volatility and expected term assumptions as more historical data for the Company's common stock becomes available. The risk-free rate assumption is based on the U.S. Treasury instruments with maturities similar to the expected term of the Company's stock options. The expected dividend assumption is based on the Company's history of not paying dividends and its expectation that it will not declare dividends for the foreseeable future.

Total stock-based compensation recognized, before taxes, are as follows (in thousands):

	Three Months Ended March 31,	
	2022	2021
Cost of sales	$ 124	$ 23
Research and development	299	152
Sales, general and administrative	1,129	475
Total stock-based compensation	$ 1,552	$ 650

The amount of unearned stock-based compensation related to unvested employee stock-based payment awards as of March 31, 2022 and December 31, 2021 is $18.7 million and $10.6 million, respectively. The weighted-average period over which the unearned stock-based compensation is expected to be recognized as of March 31, 2022 and December 31, 2021 is 3.1 years and 2.8 years, respectively.

The fair value of the options granted to employees or directors was estimated as of the grant date using the Black-Scholes model assuming the weighted-average assumptions listed in the following table:

	Three Months Ended March 31,	
	2022	2021
Expected life (years)	6.0	6.0
Expected volatility	64 %	45 %
Risk-free interest rate	2.4 %	1.1 %
Expected dividend rate	— %	— %
Weighted-average fair value	$ 20.87	$ 2.38

The fair value of the options granted under the 2021 ESPP to employees was estimated as of the grant date using the Black-Scholes model assuming the weighted-average assumptions listed in the following table:

	Three Months Ended March 31, 2022
Expected life (years)	0.9
Expected volatility	50 %
Risk-free interest rate	0.1 %
Expected dividend rate	— %
Weighted-average fair value	$ 8.44

9. Commitments and Contingencies

Guarantees and Indemnifications

In the normal course of business, the Company enters into agreements that contain a variety of representations and provide for general indemnification. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. As of March 31, 2022 and December 31, 2021, the Company does not have any material indemnification claims that were probable or reasonably possible and consequently has not recorded related liabilities.

Facility Lease

In July 2013, the Company entered into a lease agreement for its current facility located in Redwood City, California. In 2018, the Company expanded the lease space and extended the lease agreement through October 2023. The lease agreement provides for an escalation of rent payments each year and the Company records rent expense on a straight-line basis over the term of the lease. Rent is payable monthly. As of March 31, 2022 and December 31, 2021, the remaining future minimum lease payments under this lease is $3.9 million and $4.5 million, respectively.

Rent expense recognized under the lease, including additional rent charges for utilities, parking, maintenance, and real estate taxes, was $0.7 million for each of the three months ended March 31, 2022 and 2021.

As of March 31, 2022 and December 31, 2021, the Company has future commitments of $53.9 million and $54.5 million from debt repayments and office space under a non-cancelable operating lease expiring October 2023, respectively.

Future minimum annual operating lease and debt repayments are as follows (in thousands):

As of March 31, 2022	Minimum Lease Payments	Debt Repayments	Total
2022	$ 1,842	$ —	$ 1,842
2023	2,092	12,500	14,592
2024	—	37,500	37,500
Total minimum payments	3,934	50,000	53,934
Less: amount representing interest/unamortized debt discount	(335)	254	(81)
Present value of future payments	3,599	50,254	53,853
Less: current portion	(2,181)	—	(2,181)
Non-current portion	$ 1,418	$ 50,254	$ 51,672

As of December 31, 2021	Minimum Lease Payments	Debt Repayments	Total
2022	$ 2,445	$ —	$ 2,445
2023	2,092	12,500	14,592
2024	—	37,500	37,500
Total minimum payments	4,537	50,000	54,537
Less: amount representing interest/unamortized debt discount	(441)	4	(437)
Present value of future payments	4,096	50,004	54,100
Less: current portion	(2,105)	—	(2,105)
Non-current portion	$ 1,991	$ 50,004	$ 51,995

As of March 31, 2022 and December 31, 2021, the Company’s security deposit is in the form of, and recorded as, restricted cash.

On December 31, 2021, the Company entered into a lease for two existing buildings, comprising approximately 158,221 square feet of space, located in San Jose, California. The term of the lease is anticipated to commence no later than December 31, 2022, and continue for 122 months following the lease commencement, with two five year options to extend the term of the lease. The Lease provides for annual base rent of $4.3 million for the first year, which increases on a yearly basis up to $5.5 million for the tenth year, for an aggregate of $49.2 million. In January 2022, the Company issued a standby letter of credit to the landlord in the amount of $3.0 million as the security deposit for the lease. The standby letter of credit is secured by a $3.0 million bank deposit and will be recorded as restricted cash. Under the terms of the lease, the Company will receive an allowance of up to $7.9 million from the landlord to be applied to the Company’s construction of tenant improvements following the landlord’s delivery of the two buildings to the Company. The Company intends to relocate its operations to the facility in San Jose prior to the end of the term of the lease for its facility in Redwood City, California.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes included elsewhere in this report. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed in the section titled "Risk Factors" and elsewhere in this report. Please also see the section titled "Cautionary Note Regarding Forward-Looking Statements."

Overview

We are a surgical robotics company focused on advancing patient care by developing transformative solutions in urology. We develop, manufacture and sell the AquaBeam Robotic System, an advanced, image-guided, surgical robotic system for use in minimally invasive urologic surgery, with an initial focus on treating benign prostatic hyperplasia, or BPH. BPH is the most common prostate disease and impacts approximately 40 million men in the United States. The AquaBeam Robotic System employs a single-use disposable handpiece to deliver our proprietary Aquablation therapy, which combines real-time, multi-dimensional imaging, personalized treatment planning, automated robotics and heat-free waterjet ablation for targeted and rapid removal of prostate tissue. We designed our AquaBeam Robotic System to enable consistent and reproducible BPH surgery outcomes. We believe that Aquablation therapy represents a paradigm shift in the surgical treatment of BPH by addressing compromises associated with alternative surgical interventions. We designed Aquablation therapy to deliver effective, safe and durable outcomes for males suffering from lower urinary tract symptoms, or LUTS, due to BPH that are independent of prostate size and shape or surgeon experience. We have developed a significant and growing body of clinical evidence, which includes nine clinical studies and over 100 peer-reviewed publications, supporting the benefits and clinical advantages of Aquablation therapy. As of March 31, 2022, we had an install base of 150 AquaBeam Robotic Systems globally, including 93 in the United States.

Our U.S. pivotal trial, the WATER study, is the only FDA pivotal study randomized against transurethral resection of prostate, or TURP, which is the historical standard of care for the surgical treatment of BPH. In this study, Aquablation therapy demonstrated superior safety and non-inferior efficacy compared to TURP across prostate sizes between 30 ml and 80 ml, and superior efficacy in a subset of patients with prostates larger than 50 ml. We have established strong relationships with key opinion leaders, or KOLs, within the urology community and collaborated with key urological societies in global markets. This support has been instrumental in facilitating broader acceptance and adoption of Aquablation therapy. As a result of our strong KOL network and our compelling clinical evidence, Aquablation therapy has been added to clinical guidelines of various professional associations, including the American Urological Association.

In the United States, we sell our products to hospitals. We are initially targeting 860 high-volume hospitals that perform, on average, more than 200 resective procedures annually and account for approximately 70% of all hospital-based resective procedures. Over time, we will gradually expand our focus to also include mid- and low-volume hospitals. These customers in turn bill various third-party payors, such as commercial payors and government agencies, for treatment payment of each patient. Effective in 2021, all local Medicare Administrative Contractors, or MACs, which represent 100% of eligible Medicare patients, issued final positive local coverage determinations to provide Medicare beneficiaries with access to Aquablation therapy in all 50 states. We also have favorable coverage decisions from several large commercial payors, including Aetna, Anthem, Cigna, Humana, Health Care Service Corporation, Independence Blue Cross Blue Shield, BlueCross – Massachusetts, Emblem Health, and CareFirst. We plan to leverage these recent successes in our active discussions with all commercial payors to establish additional positive national and regional coverage policies. Outside of the United States, we have ongoing efforts in key markets to expand established coverage and improve payment which we believe will expand patient access to Aquablation therapy.

We manufacture the AquaBeam Robotic System, the handpiece, integrated scope and other accessories at our facility in Redwood City, California. This includes supporting the supply chain distribution and logistics of the

various components. Components, sub-assemblies and services required to manufacture our products are purchased from numerous global suppliers. Each AquaBeam Robotic System is shipped to our customers with a third-party manufactured ultrasound system and probe. We utilize a well-known third-party logistics provider located in the United States and the Netherlands to ship our products to our customers globally.

We generated revenue of $14.2 million and incurred a net loss of $17.2 million for the three months ended March 31, 2022, compared to revenue of $7.2 million and a net loss of $12.8 million for the three months ended March 31, 2021. As of March 31, 2022, we had cash and cash equivalents of $284.3 million and an accumulated deficit of $278.7 million.

We completed our IPO in September 2021, which raised $172.4 million, net of issuance costs. Previously, our primary sources of capital have been from private placements of redeemable convertible preferred securities and debt financing agreements. As of March 31, 2022, we have raised $337.1 million from private placements of redeemable convertible preferred securities from our investors. We expect our expenses will increase for the foreseeable future, in particular as we continue to make substantial investments in sales and marketing, operations and research and development. Moreover, we expect to incur additional expenses as a result of operating as a public company, including legal, accounting, insurance, compliance with the rules and regulations of the SEC and those of any stock exchange on which our securities are traded, investor relations, and other administrative and professional services expenses. Based on our operating plan, we currently believe that our existing cash and cash equivalents, anticipated revenue and available debt financing arrangements will be sufficient to meet our capital requirements and fund our operations through at least the next twelve months from the issuance date of the financial statements. If these sources are insufficient to satisfy our liquidity requirements, we may seek to sell additional public equity or debt securities or obtain an additional credit facility. The sale of equity and convertible debt securities may result in dilution to our stockholders and, in the case of preferred equity securities or convertible debt, those securities could provide for rights, preferences or privileges senior to those of our common stock. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders. Additional financing may not be available at all, or in amounts or on terms unacceptable to us. If we are unable to obtain additional financing, we may be required to delay the development, commercialization and marketing of our products.

Factors Affecting Our Performance

We believe there are several important factors that have impacted and that we expect will impact our operating performance and results of operations for the foreseeable future. While these factors may present significant opportunities for us, they also pose significant risks and challenges that we must address. See the section titled “Risk Factors” for more information. These factors include:

- *Grow our install base of AquaBeam Robotic Systems:* As of March 31, 2022, we had an install base of 150 AquaBeam Robotic Systems globally, including 93 in the United States. In the United States, we are initially focused on driving adoption of Aquablation therapy among urologists that perform hospital-based resective BPH surgery. We are initially targeting 860 high-volume hospitals that we estimate perform, on average, more than 200 resective procedures annually and account for approximately 70% of all hospital-based resective procedures. To penetrate these hospitals, we will continue to increase our direct team of capital sales representatives, who are focused on driving system placement within hospitals by engaging with key surgeons and decision makers to educate them about the compelling value proposition of Aquablation therapy. As we increase our install base of AquaBeam Robotic systems our revenue will increase as a result of the system sale and resulting utilization.

- *Increase system utilization:* Our revenue is significantly impacted by the utilization of our AquaBeam robotic system. Once we place a system within a hospital our objective is to establish Aquablation therapy as the surgical treatment of choice for BPH. Within each hospital we are initially focused on targeting urologists who perform medium-to-high volumes of resective procedures and converting their resective cases to Aquablation therapy. To accomplish this, we will continue expanding our team of highly trained Aquablation representatives and clinical specialists who are focused on driving system utilization within the hospital, providing education and training support and ensuring excellent user experiences. As urologists

gain experience with Aquablation therapy we will leverage their experiences to capture more surgical volumes and establish Aquablation therapy as the surgical standard of care.

- *Reimbursement and coverage decisions by third-party payors.* Healthcare providers in the United States generally rely on third-party payors, principally federal Medicare, state Medicaid and private health insurance plans, to cover all or part of the cost of procedures using our AquaBeam Robotic System. The revenue we are able to generate from sales of our products depends in large part on the availability of sufficient reimbursement from such payors. Effective in 2021, all local MACs, representing 100% of eligible Medicare patients, issued final positive local coverage determinations to provide Medicare beneficiaries with access to Aquablation therapy in all 50 states. We believe that these favorable coverage decisions have been a catalyst for hospital adoption of our AquaBeam Robotic System. We believe our strong body of clinical evidence and support from key societies, supplemented by the momentum from Medicare coverage, have led to favorable coverage decisions from several large commercial payors, including Aetna, Anthem, Cigna, Humana, Health Care Service Corporation, Independence Blue Cross Blue Shield, BlueCross – Massachusetts, Emblem Health, and CareFirst. We plan to leverage these recent successes in our active discussions with commercial payors to establish additional positive national and regional coverage policies. We believe that additional commercial payor coverage will contribute to increasing utilization of our system over time. Outside of the United States, we have ongoing efforts in key markets to expand established coverage and further improve patient access to Aquablation therapy.

- *Cost of sales.* The results of our operations will depend, in part, on our ability to increase our gross margins by more effectively managing our costs to produce our AquaBeam Robotic System and single-use disposable handpieces, and to scale our manufacturing operations efficiently. We anticipate that as we expand our sales and marketing efforts and drive further sales growth, our purchasing costs on a per unit basis may decrease, and in turn improve our gross margin. As our commercial operations continue to grow, we expect to continue to realize operating leverage through increased scale efficiencies.

- *Investment in research and development to drive continuous improvements and innovation.* We are currently developing additional and next generation technologies to support and improve Aquablation therapy to further satisfy the evolving needs of surgeons and their patients as well as to further enhance the usability and scalability of the AquaBeam Robotic System. We also plan to leverage our treatment data and software development capabilities to integrate artificial intelligence and machine learning to enable computer-assisted anatomy recognition and improved treatment planning and personalization. Our future growth is dependent on these continuous improvements which require significant resources and investment.

Impact of the COVID-19 Pandemic

The COVID-19 outbreak and the consequential economic disruptions have negatively impacted and may continue to negatively impact our operations, revenue and overall financial condition. In response to the pandemic, numerous state and local jurisdictions imposed, and others in the future may impose, “shelter-in-place” orders, quarantines, executive orders, and similar government orders and restrictions for their residents to control the spread of COVID-19. Starting in mid-March 2020, the governor of California, where our headquarters are located, issued “shelter-in-place” or “stay at home” orders restricting non-essential activities, travel, and business operations, subject to certain exceptions for necessary activities. Such orders or restrictions have resulted in our headquarters closing, slowdowns and delays, travel restrictions, and cancellation of training and other events, among other effects, thereby negatively impacting our operations. Additionally, in the United States, governmental authorities have recommended, and in certain cases required, that elective, specialty and other procedures and appointments be suspended or canceled to avoid non-essential patient exposure to medical environments and potential infection with COVID-19 and to focus limited resources and personnel capacity toward the treatment of COVID-19.

These measures and challenges have decreased the number of BPH procedures generally, and consequently could have slowed adoption of our AquaBeam therapy and may have impacted our ability to sell our AquaBeam Robotic System. We believe the number of our systems sold has been impacted as health care organizations globally have prioritized the treatment of patients with COVID-19, and as health care organizations continue to experience consequential economic disruptions from the COVID-19 pandemic such as budget shortfalls and staffing shortages.

Numerous procedures have been and in certain jurisdictions in which we operate are continuing to be cancelled or delayed as a result of local public health measures and hospital policies. We have also experienced disruptions, and may experience future disruptions, including: delays in sales personnel becoming fully trained and productive; difficulties and delays in physician outreach and training physicians to use our AquaBeam Robotic System; restrictions on personnel to travel; delays in follow-ups of our clinical studies; challenges with maintaining adequate supply from third-party manufacturers of components and finished goods and distribution providers; and access to physicians for training and case support.

While many restrictions associated with COVID-19 have more recently been relaxed, the longevity and extent of the various COVID-19 pandemic remains uncertain, including due to the emergence and impact of the COVID-19 variants and continued economic disruptions. These measures and challenges may continue for the duration of the pandemic and may negatively impact our revenue growth while the pandemic continues.

Components of Our Results of Operations

Revenue

We generate our revenue primarily from the capital portion of our business, which includes sales and rentals of our AquaBeam Robotic System, and from the recurring revenue associated with sales of our single-use disposable handpieces that are used during each surgery performed with our system. Other revenue is derived primarily from service and repair and extended service contracts with our existing customers. We expect our revenue to increase in absolute dollars for the foreseeable future as we continue to focus on driving adoption of Aquablation therapy, and increased system utilization, though it may fluctuate from quarter to quarter.

The following table presents revenue by significant geographical locations for the periods indicated:

	Three Months Ended March 31,	
	2022	2021
United States	88 %	87 %
Outside the United States	12 %	13 %

We expect that both our U.S. and international revenue will increase in the near term as we continue to expand the install base of AquaBeam Robotic Systems and increase the units sold of our single-use disposable handpieces. We expect our increase in revenues in absolute dollars to be larger in the United States.

Cost of Sales and Gross Margin

Cost of sales consists primarily of material costs, direct labor and manufacturing overhead costs, warranty and service costs, and other direct costs such as shipping costs. A significant portion of our cost of sales currently consists of manufacturing overhead costs. These overhead costs include compensation for personnel, including stock-based compensation, facilities, equipment and operations supervision, quality assurance and material procurement. We expect our cost of sales to increase in absolute dollars for the foreseeable future primarily as, and to the extent, our revenue grows, or we make additional investments in our manufacturing capabilities, though it may fluctuate from period to period.

We calculate gross margin percentage as gross profit divided by revenue. Our gross margin has been and will continue to be affected by a variety of factors, primarily, product and geographic mix and the resulting average selling prices, production volumes, manufacturing costs and product yields, and to a lesser extent the implementation of cost reduction strategies. We expect our gross margin to increase over the long term as our production volume increases and as we spread the fixed portion of our manufacturing overhead costs over a larger number of units produced, thereby significantly reducing our per unit manufacturing costs, though it may fluctuate from quarter to quarter. Our gross margins can fluctuate due to geographic mix. To the extent we sell more systems and handpieces in the United States, we expect our margins will increase due to the higher average selling prices as compared to sales outside of the United States.

Operating Expenses

Research and Development

Research and development, or R&D, expenses consist primarily of engineering, product development, regulatory affairs, consulting services, materials, depreciation and other costs associated with products and technologies being developed. These expenses include employee and non-employee compensation, including stock-based compensation, supplies, materials, quality assurance expenses, consulting, related travel expenses and facilities expenses. We expect our R&D expenses to increase in absolute dollars for the foreseeable future as we continue to develop, enhance and commercialize new products and technologies, though it may fluctuate from quarter to quarter. However, we expect our R&D expenses as a percentage of revenue to vary over time depending on the level and timing of initiating new product development efforts.

Selling, General and Administrative

Selling, general and administrative, or SG&A, expenses consist primarily of compensation for personnel, including stock-based compensation, related to selling, marketing, clinical affairs, professional education, finance, information technology, and human resource functions. SG&A expenses also include commissions, training, travel expenses, promotional activities, conferences, trade shows, professional services fees, audit fees, legal fees, insurance costs and general corporate expenses including allocated facilities-related expenses. Clinical expenses include clinical trial design, clinical site reimbursement, data management and travel expenses. We expect our SG&A expenses to increase in absolute dollars for the foreseeable future as we expand our commercial infrastructure and incur additional fees associated with operating as a public company, including legal, accounting, insurance, compliance with the rules and regulations of the SEC and those of any stock exchange on which our securities are traded, investor relations, and other administrative and professional services expenses, though it may fluctuate from quarter to quarter. However, over time, we expect our SG&A expenses to decrease as a percentage of revenue.

Interest and Other Income (Expense), Net

Interest Expense

Interest expense consists primarily of interest expense from our loan payable.

Interest and Other Income (Expense), Net

Interest and other income (expense), net, consists primarily of interest income from our cash and cash equivalents balances, and fair value adjustments from our redeemable convertible preferred stock warrant liabilities and our loan facility derivative liability.

In connection with our sales of redeemable convertible preferred stock, we issued warrants to purchase shares of our Series E redeemable convertible preferred stock. We classified these warrants as a liability on our balance sheets that we remeasured to fair value at each reporting date with the corresponding change in fair value being recognized in our statements of operations. Upon completion of our IPO in September 2021, the redeemable convertible preferred stock warrant liability was reclassified to additional paid-in capital in stockholders' equity (deficit) for warrants exercised and statement of operations for warrants expired.

Additionally, in connection with the loan facility, we are obligated to pay a fee upon the earlier occurrence of a defined liquidity event, including but not limited to, a merger or sale of our assets or voting stock, or our achieving a $200 million trailing twelve months revenue target, in each case, by September 2029. The fee is calculated at the time of the liquidity event occurrence to be $1.0 million if only the first installment has been drawn, $2.0 million if the first two installments have been drawn, $2.4 million if the first three installments have been drawn, or $3.0 million if all four installments have been drawn, in each case, upon the occurrence of the liquidity event. We adjust the carrying values of the loan facility derivative liability for changes in fair value and recognize those changes in interest and other income (expense), net.

Results of Operations

The following tables show our results of operations for the periods indicated:

	Three Months Ended March 31,		Change	
	2022	2021	$	%
	(in thousands, except percentages)			
Revenue	$ 14,197	$ 7,192	$ 7,005	97 %
Cost of sales	6,505	3,665	2,840	77
Gross profit	7,692	3,527	4,165	118
Gross margin	*54 %*	*49 %*		
Operating expenses:				
Research and development	5,011	4,522	489	11
Selling, general and administrative	18,385	10,349	8,036	78
Total operating expenses	23,396	14,871	8,525	57
Loss from operations	(15,704)	(11,344)	(4,360)	(38)
Interest expense	(1,421)	(1,464)	43	3
Interest and other income (expense), net	(60)	(14)	(46)	(329)
Net loss	$ (17,185)	$ (12,822)	$ (4,363)	(34)

Comparison of Three Months Ended March 31, 2022 and 2021

Revenue

	Three Months Ended March 31,		Change	
	2022	2021	$	%
	(in thousands, except percentages)			
System sales and rentals	$ 8,496	$ 4,831	$ 3,665	76 %
Handpieces and other consumables	5,189	2,225	2,964	133
Service	512	136	376	276
Total revenue	$ 14,197	$ 7,192	$ 7,005	97

Revenue increased $7.0 million, or 97%, to $14.2 million during the three months ended March 31, 2022, compared to $7.2 million during the three months ended March 31, 2021. The growth in revenue was primarily attributable to an increase of $6.3 million in revenues derived from the United States. The increase was due to higher sales volumes of both our AquaBeam Robotic System and our single-use disposable handpieces, resulting from the expansion of insurance coverage and the increase in personnel in our sales and marketing organizations. In addition, sales of both our AquaBeam Robotic System and our single-use disposable handpieces outside of the United States increased by $0.6 million in sales volume.

Cost of Sales and Gross Margin

Cost of sales increased $2.8 million, or 77%, to $6.5 million during the three months ended March 31, 2022, compared to $3.7 million during the three months ended March 31, 2021. The increase in cost of sales was primarily attributable to the growth in the number of units sold.

Gross margin increased to 54% during the three months ended March 31, 2022, compared to 49% for the three months ended March 31, 2021. The increase in gross margin was primarily attributable to the growth in unit sales, which allowed us to spread the fixed portion of our manufacturing overhead costs over more production units. Additionally, we realized higher average selling prices in the United States on both our AquaBeam Robotic System and our single-use disposable handpieces.

Research and Development Expenses

R&D expenses increased $0.5 million, or 11%, to $5.0 million during the three months ended March 31, 2022, compared to $4.5 million during the three months ended March 31, 2021. The increase in R&D expenses was primarily due to employee-related expenses of our R&D organization. These expenses support ongoing product improvements and the development of additional and next generation technologies.

Selling, General and Administrative Expenses

SG&A expenses increased $8.0 million, or 78%, to $18.4 million during the three months ended March 31, 2022, compared to $10.3 million during the three months ended March 31, 2021. The increase in SG&A expenses was primarily due to employee-related expenses of our sales and marketing organization and reimbursement and administrative organizations as we expanded our infrastructure to drive and support our growth in revenue.

Interest Expense

Interest expense was consistent during the three months ended March 31, 2022 and 2021.

Interest and Other Income (Expense), Net

Interest and other income (expense), net, was consistent during the three months ended March 31, 2022 and 2021.

Liquidity and Capital Resources

Overview

We completed our IPO in September 2021, which raised $172.4 million, net of issuance costs. Previously, our primary sources of capital have been from private placements of redeemable convertible preferred securities and debt financing agreements.

As of March 31, 2022, we had cash and cash equivalents of $284.3 million, an accumulated deficit of $278.7 million, and $50.0 million outstanding on our loan facility. We expect our expenses will increase for the foreseeable future, in particular as we continue to make substantial investments in sales and marketing, operations and research and development. Moreover, we expect to incur additional expenses as a result of operating as a public company, including legal, accounting, insurance, compliance with the rules and regulations of the SEC and those of any stock exchange on which our securities are traded, investor relations, and other administrative and professional services expenses. Our future funding requirements will depend on many factors, including:

- the degree and rate of market acceptance of our products and Aquablation therapy;
- the scope and timing of investment in our sales force and expansion of our commercial organization;
- the impact on our business from the ongoing and global COVID-19 pandemic and the end of the COVID-19 pandemic, or any other pandemic, epidemic or outbreak of an infectious disease;
- the scope, rate of progress and cost of our current or future clinical trials and registries;
- the cost of our research and development activities;
- the cost and timing of additional regulatory clearances or approvals;

- the costs associated with any product recall that may occur;
- the costs associated with the manufacturing of our products at increased production levels;
- the costs of attaining, defending and enforcing our intellectual property rights;
- whether we acquire third-party companies, products or technologies;
- the terms and timing of any other collaborative, licensing and other arrangements that we may establish;
- the emergence of competing technologies or other adverse market developments; and
- the rate at which we expand internationally.

Based on our operating plan, we currently believe that our existing cash and cash equivalents, anticipated revenue and available debt financing arrangements will be sufficient to meet our capital requirements and fund our operations through at least the next twelve months from the issuance date of the financial statements. We have based this estimate on assumptions that may prove to be wrong, and we may need to utilize additional available capital resources. If these sources are insufficient to satisfy our liquidity requirements, we may seek to sell additional public equity or debt securities or obtain an additional credit facility. The sale of equity and convertible debt securities may result in dilution to our stockholders and, in the case of preferred equity securities or convertible debt, those securities could provide for rights, preferences or privileges senior to those of our common stock. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders. Additional financing may not be available at all, or in amounts or on terms unacceptable to us. If we are unable to obtain additional financing, we may be required to delay the development, commercialization and marketing of our products.

Indebtedness

In September 2019, we entered into a loan facility for up to $75.0 million available in four installments. We borrowed $25.0 million in September 2019 and an additional $25.0 million in March 2020. The third installment is for $10.0 million and was originally available for draw through March 31, 2021 contingent upon our achieving $20.0 million trailing six months revenue in any month before March 31, 2021.

The remaining $15.0 million was originally available for draw through June 30, 2021 contingent upon achieving $25.0 million in trailing six months revenue. In January 2021, the third installment was amended to be available for draw through March 31, 2022 contingent upon our achieving $6.4 million trailing six months revenue prior to June 30, 2021, and the fourth installment was amended to be available for draw though June 30, 2022. The facility bears an interest rate of the greater of (i) 9.37% and (ii) 7.17% plus 30-day LIBOR. The facility includes customary negative covenants that, among other things, restrict our ability to incur indebtedness or enter into certain change of control transactions. It also contains customary events of default that would result in the termination of the commitments under the facility and permit the lender to accelerate payment on outstanding borrowings. As of March 31, 2022, we were in compliance with all covenants under the facility. The initial term of the facility is 60 months with interest-only payments, with the repayment of principal being amortized over a period of: 36 months, if we fail to achieve the revenue target for the third installment, 24 months if we achieve the revenue target for the third installment but have not raised at least $50.0 million in an initial public offering, or 12 months if we achieve the revenue target for the third installment and raise at least $50.0 million in an initial public offering. Upon completion of raising over $50.0 million in our IPO in September 2021, interest-only payments was extended an additional 12 months followed by 12 months amortization of principal and interest. We pledged substantially all of our assets as collateral for the loan. Commencing with the quarter ended June 30, 2021, we are required to achieve revenue for the previous six months ended equal to 70% of the forecast for the commensurate quarterly period. Additionally, in connection with the loan facility, we are obligated to pay a fee upon the earlier occurrence of a defined liquidity event, including but not limited to, a merger or sale of our assets or voting stock, or our achieving a $200.0 million trailing twelve months revenue target, in each case, by September 2029. The fee is calculated at the time of the liquidity event occurrence to be $1.0 million if only the first installment has been drawn, $2.0 million if

the first two installments have been drawn, $2.4 million if the first three installments have been drawn, or $3.0 million if all four installments have been drawn, in each case, upon the occurrence of the liquidity event. As of March 31, 2022, we have drawn on the first two installments. As of March 31, 2022, we had $50.0 million outstanding under the loan facility.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	$ (18,231)	$ (15,198)
Investing activities	(55)	(39)
Financing activities	1,291	1,225
Net increase in cash, cash equivalents and restricted cash	$ (16,995)	$ (14,012)

Net Cash Used in Operating Activities

During the three months ended March 31, 2022, net cash used in operating activities was $18.2 million, consisting primarily of a net loss of $17.2 million and an increase in net operating assets of $3.3 million, partially offset by non-cash charges of $2.3 million. The cash used in operations was primarily due to our net loss due to the increase in operating expenses to support our commercialization and development activities. The expansion of our commercialization resulted in an increase in accounts receivable and a decrease in accrued compensation. Non-cash charges consisted primarily of stock-based compensation and depreciation.

During the three months ended March 31, 2021, net cash used in operating activities was $15.2 million, consisting primarily of a net loss of $12.8 million and an increase in net operating assets of $3.6 million, partially offset by non-cash charges of $1.2 million. The cash used in operations was primarily due to our net loss due to the increase in operating expenses to support our commercialization and development activities. The expansion of our commercialization resulted in an increase in accounts receivable, inventory and decrease in accrued compensation, partially offset by an increase in accounts payable. Non-cash charges consisted primarily of depreciation and stock-based compensation.

Net Cash Used in by Investing Activities

During the three months ended March 31, 2022, net cash used in investing activities was $0.1 million, consisting of purchases of property and equipment. During the three months ended March 31, 2021, net cash used in investing activities was less than $0.1 million, consisting of purchases of property and equipment.

Net Cash Provided by Financing Activities

During the three months ended March 31, 2022, net cash provided by financing activities was $1.3 million, consisting of proceeds from exercises of stock options. During the three months ended March 31, 2021, net cash provided by financing activities was $1.2 million, consisting of proceeds from exercises of stock options.

Contractual Commitments and Contingencies

The information included in Note 9 to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have any off-balance sheet arrangements, such as structured finance, special purpose entities or variable interest entities.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions for the reported amounts of assets, liabilities, revenue, expenses and related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions and any such differences may be material.

The significant accounting policies and estimates used in preparation of the unaudited condensed consolidated financial statements are described in our audited consolidated financial statements as of and for the year ended December 31, 2021, and the notes thereto, which are included in our Annual Report on Form 10-K dated March 22, 2022, or Annual Report, and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report. There have been no material changes to our significant accounting policies during the three months ended March 31, 2022.

JOBS Act Accounting Election and Smaller Reporting Company Status

We are an "emerging growth company," as defined in the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

We are also a "smaller reporting company" as defined in the Exchange Act. We may continue to be a smaller reporting company even after we are no longer an emerging growth company. We may take advantage of certain of the scaled disclosures available to smaller reporting companies and will be able to take advantage of these scaled disclosures for so long as our voting and non-voting common stock held by non-affiliates is less than $250.0 million measured on the last business day of our second fiscal quarter, or our annual revenue is less than $100.0 million during the most recently completed fiscal year and our voting and non-voting common stock held by non-affiliates is less than $700.0 million measured on the last business day of our second fiscal quarter.

Recent Accounting Pronouncements

The information included in Note 2 to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Cash and cash equivalents of $284.3 million as of March 31, 2022, consisted of securities carried at quoted market prices with an original maturity of three months or less and therefore there is minimal risk associated with fluctuating interest rates. We do not currently use or plan to use financial derivatives in our investment portfolio.

In addition, as described above under the subsection titled "Indebtedness," amounts outstanding under our loan facility bear interest at a floating rate equal to 7.17% plus the greater of 2.2% or 30-day LIBOR. As a result, we are exposed to risks from changes in interest rates. We do not believe that a hypothetical 100 basis point increase or decrease in interest rates or 30-day LIBOR would have had a material impact on our financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Credit Risk

We maintain our cash and cash equivalents with multiple financial institutions in the United States, and our current deposits are in excess of insured limits. We have reviewed the financial statements of these institutions and believe it has sufficient assets and liquidity to conduct its operations in the ordinary course of business with little or no credit risk to us.

Our accounts receivable primarily relate to revenue from the sale or rental of our products. One customer accounted for 11% of accounts receivable at March 31, 2022 and December 31, 2021. We believe that credit risk in our accounts receivable is mitigated by our credit evaluation process, relatively short collection terms and diversity of our customer base.

Foreign Currency Risk

A portion of our net sales and expenses are denominated in foreign currencies, most notably the Euro. Future fluctuations in the value of the U.S. Dollar may affect the price competitiveness of our products outside the United States. For direct sales outside the United States, we sell in both U.S. Dollars and local currencies, which could expose us to additional foreign currency risks, including changes in currency exchange rates. Our operating expenses in countries outside the United States, are payable in foreign currencies and therefore expose us to currency risk. We do not believe that a hypothetical 10% increase or decrease in the relative value of the U.S. dollar to other currencies would have had a material impact on our financial statements included elsewhere in this Quarterly Report on Form 10-Q.

We do not currently maintain a program to hedge exposures to non-U.S. dollar currencies.

Effects of Inflation

Inflation generally affects us by increasing our cost of labor and research and development contract costs. We do not believe that inflation had a material effect on our financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of March 31, 2022, our disclosure controls and procedures were effective at the reasonable assurance level

Limitations on Effectiveness of Disclosure Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceeding

We are not subject to any material legal proceedings.

Item 1A. Risk Factors

Our business, financial condition and operating results are affected by a number of factors, whether currently known or unknown, including risks specific to us or the healthcare industry as well as risks that affect businesses in general. In addition to the information set forth in this Quarterly Report on Form 10-Q, you should consider carefully the factors discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the SEC on March 22, 2022. The risks and uncertainties disclosed in such Annual Report and in this Quarterly Report could materially adversely affect our business, financial condition, cash flows or results of operations and thus our stock price. During the three months ended March 31, 2022, there were no material changes to our previously disclosed risk factors. Besides risk factors disclosed in the Annual Report and this Quarterly Report, additional risks and uncertainties not currently known or we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations.

These risk factors may be important to understanding other statements in this Quarterly Report and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes in Part I, Item 1, “Financial Statements” and Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report. Because of such risk factors, as well as other factors affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

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

Sales of Unregistered Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed or furnished as a part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

Exhibit No.	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on September 21, 2021)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed on September 21, 2021)
31.1**	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.
** Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 6, 2022

PROCEPT BIOROBOTICS CORPORATION
(Registrant)

/s/ Reza Zadno

Reza Zadno, Ph.D.
President and Chief Executive Officer
(principal executive officer)

/s/ Kevin Waters

Kevin Waters
EVP, Chief Financial Officer
(principal financial and accounting officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Reza Zadno, Ph.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PROCEPT BioRobotics Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [omitted];

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2022

By: /s/ Reza Zadno

Reza Zadno, Ph.D.

Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin Waters, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PROCEPT BioRobotics Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [omitted];

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2022

By: /s/ Kevin Waters

Kevin Waters

Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of PROCEPT BioRobotics Corporation (the "Company") on Form 10-Q for the period ending March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 6, 2022 By: /s/ Reza Zadno

Reza Zadno, Ph.D.

Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 32.2

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

In connection with the Quarterly Report of PROCEPT BioRobotics Corporation (the "Company") on Form 10-Q for the period ending March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 6, 2022

By: /s/ Kevin Waters

Kevin Waters

Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.