

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 30, 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**

(State or other jurisdiction of incorporation or organization)

**26-0199180**

(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 44,720,047 shares of common stock as of October 31, 2022.

---

**PROCEPT BioRobotics Corporation**  
**Form 10-Q – QUARTERLY REPORT**  
**For the Quarter Ended September 30, 2022**

**TABLE OF CONTENTS**

	<u>Page</u>	
<u>Part I. Financial Information</u>		
<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements (unaudited)</u>	<u>4</u>
	<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Operations and Comprehensive Loss</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>8</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	<u>32</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>33</u>
<u>Part II. Other Information</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>34</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>34</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>35</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>35</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>35</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>36</u>
	<u>Signatures</u>	

## 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)

	September 30, 2022	December 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 249,217	\$ 304,3
Accounts receivable, net	12,838	4,4
Inventory	22,358	13,1
Prepaid expenses and other current assets	4,519	4,2
Total current assets	288,932	326,1
Restricted cash	3,814	7
Property and equipment, net	5,120	5,0
Operating lease right-of-use assets, net	24,424	3,2
Intangible assets, net	1,545	1,7
Other assets	202	
Total assets	\$ 324,037	\$ 337,0
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 6,331	\$ 2,0
Accrued compensation	10,284	6,4
Deferred revenue	2,342	1,0
Operating lease – current portion	2,473	2,1
Other current liabilities	5,929	4,6
Total current liabilities	27,359	16,2
Note payable – non-current portion	50,692	50,0
Operating lease – non-current portion	23,415	1,9
Loan facility derivative liability	1,609	1,4
Other non-current liabilities	200	2
Total liabilities	103,275	69,9
Commitments and contingencies (see Note 11)		
Stockholders' equity:		
Preferred stock, \$0.00001 par value;		
Authorized shares: 10,000 at September 30, 2022 and December 31, 2021		
Issued and outstanding shares: none at September 30, 2022 and December 31, 2021		
Common stock, \$0.00001 par value;		
Authorized shares: 300,000 at September 30, 2022 and December 31, 2021		
Issued and outstanding shares: 44,714 and 43,676 at September 30, 2022 and December 31, 2021, respectively		
Additional paid-in capital	541,048	528,6
Accumulated other comprehensive loss	217	(
Accumulated deficit	(320,503)	(261,5
Total stockholders' equity	220,762	267,0
Total liabilities and stockholders' equity	\$ 324,037	\$ 337,0

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 20,349	\$ 8,668	\$ 51,237	\$ 24,335
Cost of sales	10,118	4,428	24,828	12,986
Gross profit	10,231	4,240	26,409	11,349
Operating expenses:				
Research and development	7,582	4,919	19,299	13,917
Selling, general and administrative	24,754	12,118	62,794	34,765
Total operating expenses	32,336	17,037	82,093	48,682
Loss from operations	(22,105)	(12,797)	(55,684)	(37,333)
Interest expense	(1,455)	(1,469)	(4,317)	(4,370)
Interest and other income, net	947	163	1,019	198
Net loss	\$ (22,613)	\$ (14,103)	\$ (58,982)	\$ (41,505)
Net loss per share, basic and diluted	\$ (0.51)	\$ (1.22)	\$ (1.33)	\$ (5.64)
Weighted-average common shares used to compute net loss per share attributable to common shareholders, basic and diluted	44,640	11,580	44,276	7,361
Other comprehensive loss:				
Unrealized gain (loss) on cash equivalents	185	(2)	271	(27)
Comprehensive loss	\$ (22,428)	\$ (14,105)	\$ (58,711)	\$ (41,532)

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 gain 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
Issuance upon exercise of options	—	—	400	—	1,572	—	—	1,572
Shares issued under employee stock purchase plan	—	—	61	—	1,289	—	—	1,289
Stock-based compensation expense	—	—	—	—	2,676	—	—	2,676
Unrealized gain on cash equivalents	—	—	—	—	—	85	—	85
Net loss	—	—	—	—	—	—	(19,184)	(19,184)
Balance at June 30, 2022	—	—	44,538	—	537,046	32	(297,890)	239,188
Issuance upon exercise of options	—	—	176	—	777	—	—	777
Stock-based compensation expense	—	—	—	—	3,225	—	—	3,225
Unrealized gain on cash equivalents	—	—	—	—	—	185	—	185
Net loss	—	—	—	—	—	—	(22,613)	(22,613)
Balance at September 30, 2022	—	\$ —	44,714	—	\$ 541,048	\$ 217	\$ (320,503)	\$ 220,762

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, 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)
Issuance of preferred stock, net of issuance costs	4,448	84,710	—	—	—	—	—	—
Issuance upon exercise of options	—	—	575	—	1,415	—	—	1,415
Stock-based compensation expense	—	—	—	—	725	—	—	725
Unrealized loss on cash equivalents	—	—	—	—	—	(9)	—	(9)
Net loss	—	—	—	—	—	—	(14,580)	(14,580)
Balance at June 30, 2021	29,850	328,564	5,792	—	22,803	(39)	(229,070)	(206,306)
Issuance upon exercise of warrants	62	970	—	—	—	—	—	—
Issuance of preferred stock, net of issuance costs	—	—	—	—	—	—	—	—
Conversion of redeemable convertible preferred stock to common stock upon initial public offering	(29,912)	(329,534)	29,912	—	329,534	—	—	329,534
Issuance common stock upon initial public offering, net of issuance costs	—	—	7,539	—	172,409	—	—	172,409
Issuance upon exercise of options	—	—	229	—	855	—	—	855
Stock-based compensation expense	—	—	—	—	925	—	—	925
Unrealized loss on cash equivalents	—	—	—	—	—	(2)	—	(2)
Net loss	—	—	—	—	—	—	(14,103)	(14,103)
Balance at September 30, 2021	—	\$ —	43,472	\$ —	\$526,526	\$ (41)	\$ (243,173)	\$ 283,312

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)

	Nine Months Ended September 30,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net loss	\$ (58,982)	\$ (41,505)
<b>Adjustments to reconcile net loss to cash used in operating activities:</b>		
Depreciation and amortization	2,178	2,561
Stock-based compensation expense	7,452	2,300
Change in fair value of redeemable convertible preferred stock warrants and derivative liability	113	(235)
Non-cash lease adjustment	645	(249)
Inventory write-down	87	537
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	(8,375)	(4,804)
Inventory	(9,502)	(3,580)
Prepaid expenses and other current assets	(2)	(606)
Other assets	(202)	—
Accounts payable	4,243	2,362
Accrued compensation	3,810	235
Accrued interest expense	688	804
Deferred revenue	1,318	615
Other liabilities	1,321	707
Net cash used in operating activities	(55,208)	(40,858)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1,787)	(260)
Net cash used in investing activities	(1,787)	(260)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of Series G preferred stock, net of issuance costs	—	84,710
Proceeds from issuance of common stock under employee stock purchase plan	1,289	—
Proceeds from issuance of common stock from the exercise of stock options	3,641	3,495
Proceeds from the exercise of redeemable convertible preferred stock warrants	—	858
Proceeds from issuance of common stock from the initial public offering, net of underwriting discounts, commissions and offering expenses	—	172,409
Net cash provided by financing activities	4,930	261,472
Net (decrease) increase in cash, cash equivalents and restricted cash	(52,065)	220,354
<b>Cash, cash equivalents and restricted cash</b>		
Beginning of the period	305,096	100,907
End of the period	\$ 253,031	\$ 321,261
<b>Reconciliation of cash, cash equivalents and restricted cash to balance sheets:</b>		
Cash and cash equivalents	\$ 249,217	\$ 320,484
Restricted cash	3,814	777
Cash, cash equivalents and restricted cash in balance sheets	\$ 253,031	\$ 321,261
<b>Supplemental cash flow information</b>		
Interest paid	\$ 3,573	\$ 3,566
<b>Non-cash investing and financing activities</b>		
Transfer of evaluation units from inventory to property and equipment, net	\$ 203	\$ (1,227)
Property and equipment included in accounts payable and other current liabilities	\$ 200	\$ 200
Deferred offering costs included in accounts payable and other current liabilities	\$ —	\$ 819
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 22,668	\$ —

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 September 30, 2022, the Company had cash and cash equivalents of \$249.2 million, and an accumulated deficit of \$320.5 million. 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, cash equivalents, and anticipated revenue will be sufficient to meet its capital requirements and fund its operations through at least the next twelve months from the issuance date of these financial statements. The Company has not achieved positive cash flow 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 Presentation***

The condensed consolidated financial statements have been presented 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. The Company operates as one reportable segment.

***Unaudited Interim Financial Statements***

The accompanying balance sheet as of September 30, 2022, the statements of operations and comprehensive loss for the three and nine months ended September 30, 2022 and 2021, the statements of cash flows for the nine months ended September 30, 2022 and 2021, and the statements of redeemable convertible preferred stock and stockholders’ equity (deficit) as of September 30, 2022 and 2021, are unaudited. The financial data and other information disclosed in these notes to the financial statements related to September 30, 2022, and the three and nine

months ended September 30, 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 September 30, 2022, and the results of its operations and cash flows for the three and nine months ended September 30, 2022 and 2021. The results for the three and nine months ended September 30, 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.

#### ***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, 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 (IPO)***

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. Also, upon the completion of the Company's IPO, the Company's 62,454 redeemable convertible preferred stock warrants were exercised and the remaining unexercised warrants expired.

#### ***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.

#### ***Recently Issued 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 this ASU 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 this ASU on its consolidated financial statements.

### ***Significant Accounting Policies***

#### *Property and Equipment*

Property and equipment 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. As of June 30, 2022, the Company no longer reclassifies inventory used at customer sites for evaluation purposes to property and equipment due to change in customary business practices.

#### *Income Taxes*

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 ( the Inflation Act) into law. The Inflation Act contains certain tax measures, including a corporate alternative minimum tax of 15% on some large corporations and an excise tax of 1% on corporate stock buy-backs. The Company expects the various provisions of the Inflation Act to not have a material impact on the Company’s condensed consolidated financial statements and related notes.

During the three months ended September 30, 2022, there have been no material changes to the Company’s significant accounting policies as described in its 2021 Annual Report or the first quarter 2022 Quarterly Report that could have had a material impact on the Company’s condensed consolidated financial statements and related notes.

### 3. Fair Value Measurements

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

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
<b>Cash and cash equivalents:</b>				
Cash	\$ 12,077	\$ —	\$ —	\$ 12,077
Cash equivalents	237,140	—	—	237,140
<b>Total cash and cash equivalents</b>	<b>\$ 249,217</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 249,217</b>
Loan facility derivative liability	\$ —	\$ —	\$ 1,609	\$ 1,609

  

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
<b>Cash and cash equivalents:</b>				
Cash	\$ 13,621	\$ —	\$ —	\$ 13,621
Cash equivalents	290,699	—	—	290,699
<b>Total cash and cash equivalents</b>	<b>\$ 304,320</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 304,320</b>
Loan facility derivative liability	\$ —	\$ —	\$ 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 and nine months ended September 30, 2022 and year ended December 31, 2021.

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

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning of the period	\$ 1,570	\$ 1,787	\$ 1,496	\$ 1,782
Change in fair value	39	(177)	113	(172)
<b>End of the period</b>	<b>\$ 1,609</b>	<b>\$ 1,610</b>	<b>\$ 1,609</b>	<b>\$ 1,610</b>

#### 4. Inventory

Inventory consists of the following (in thousands):

	September 30, 2022	December 31, 2021
Raw materials	\$ 11,757	\$ 6,740
Work-in-process	1,890	905
Finished goods	8,711	5,502
Total inventory	<u>\$ 22,358</u>	<u>\$ 13,147</u>

#### 5. 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 September 30, 2022 and December 31, 2021, accumulated amortization was \$1.0 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 and \$0.2 million for the three and nine months ended September 30, 2022 and 2021.

#### 6. Loan Facility and Derivative Liability

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 the greater of (i) 9.37% and (ii) 7.17% plus 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, the interest-only period was 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 would 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 September 30, 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.

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 its 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 September 30, 2022, the Company has drawn on the first two installments. The Company has determined this fee is a freestanding derivative instrument. The initial \$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.

Subsequent to September 30, 2022, the Company paid the loan facility and related fees in full. See Note 12 for further information.

## 7. Stock-Based Compensation

### Stock Options

The Company had 4.4 million shares available for grant as of September 30, 2022 under the 2021 Equity Incentive Award Plan. The Company ceased making awards under the 2008 Stock Plan upon the effective date of the Company's IPO.

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

	Nine Months Ended September 30, 2022	
	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	6,365	\$ 5.34
Granted	254	35.58
Exercised	(978)	3.72
Forfeited	(224)	7.75
Outstanding, end of period	5,417	6.95
Vested and expected to vest	5,417	6.95
Exercisable	3,142	5.27

As of September 30, 2022 and December 31, 2021, the aggregate pre-tax intrinsic value of options outstanding and exercisable was \$113.7 million and \$64.3 million, respectively, and the aggregate pre-tax intrinsic value options outstanding were \$187.0 million and \$125.7 million, respectively. The aggregate pre-tax intrinsic value of options exercised was \$27.9 million and \$5.1 million during the nine months ended September 30, 2022 and 2021, respectively.

As of September 30, 2022, there was a total of \$9.7 million of unrecognized stock-based compensation expense related to stock options.

There were no stock options granted for the three months ended September 30, 2022. 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Expected life (years)	0.0	5.9	5.9	6.0
Expected volatility	— %	53 %	55 %	50 %
Risk-free interest rate	— %	0.9 %	2.5 %	1.0 %
Expected dividend rate	— %	— %	— %	— %
Weighted-average fair value	\$ —	\$ 7.00	\$ 19.15	\$ 3.88

### Restricted Stock Units

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

	Nine Months Ended September 30, 2022	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	35	\$ 34.78
Awarded	630	34.42
Forfeited	(29)	33.76
Outstanding, end of period	636	34.47

As of September 30, 2022, there was a total of \$19.1 million of unrecognized stock-based compensation expense related to RSUs.

#### ***Employee Stock Purchase Plan***

As of September 30, 2022, there was approximately \$0.3 million of unrecognized cost related to employee stock purchases under the Employee Stock Purchase Plan (“ESPP”). This cost is expected to be recognized over a weighted average period of 0.5 years. As of September 30, 2022, a total of 0.8 million shares were available for issuance under the ESPP.

The fair value of the awards granted under the ESPP for the nine months ended September 30, 2022 to employees was estimated as of the grant date using the Black-Scholes model assuming the weighted-average assumptions listed in the following table:

	Nine Months Ended September 30, 2022
Expected life (years)	0.8
Expected volatility	57 %
Risk-free interest rate	1.8 %
Expected dividend rate	— %
Weighted-average fair value	\$ 12.25

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of sales	\$ 337	\$ 62	\$ 712	\$ 135
Research and development	678	174	1,531	482
Sales, general and administrative	2,210	689	5,209	1,683
Total stock-based compensation	\$ 3,225	\$ 925	\$ 7,452	\$ 2,300



## 8. Net Loss Per Share

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	\$ (22,613)	\$ (14,103)	\$ (58,982)	\$ (41,505)
Weighted-average common stock outstanding	44,640	11,580	44,276	7,361
Net loss per share, basic and diluted	\$ (0.51)	\$ (1.22)	\$ (1.33)	\$ (5.64)

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):

	As of September 30,	
	2022	2021
Common stock options	5,417	6,607
Restricted stock units	636	—
Employee stock purchase plan	61	—
Total	6,114	6,607

## 9. Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
U.S.				
System sales and rentals	\$ 9,811	\$ 5,038	\$ 26,081	\$ 14,368
Handpieces and other consumables	8,015	2,184	18,182	5,458
Service	812	169	1,741	378
Total U.S. revenue	18,638	7,391	46,004	20,204
Outside of U.S.				
System sales and rentals	743	481	2,353	1,725
Handpieces and other consumables	791	666	2,369	2,159
Service	177	130	511	247
Total outside of U.S. revenue	1,711	1,277	5,233	4,131
Total revenue	\$ 20,349	\$ 8,668	\$ 51,237	\$ 24,335

## 10. 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 long-lived assets are primarily based in the United States.

No customers accounted for more than 10% of revenue during the three and nine months ended September 30, 2022 and 2021.

No customers accounted for more than 10% of accounts receivable at September 30, 2022. One customer accounted for 11% of accounts receivable at December 31, 2021.

The Company's revenue by geographical location is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
United States	92 %	85 %	90 %	83 %
Outside the United States	8 %	15 %	10 %	17 %

## 11. 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 September 30, 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.

In December 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 lease commenced in July 2022, and will continue for 122 months following thereafter, 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. 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. During the three months ended September 30, 2022, the Company recorded both an right-of-use asset and liability of \$22.7 million related to the lease. Lease payments have not yet commenced for the lease. The Company used 9% as its discount rate and the remaining operating lease term is 10.4 years.

Rent expense recognized under the lease, including additional rent charges for utilities, parking, maintenance, and real estate taxes, was \$1.9 million and \$0.5 million for the three months ended September 30, 2022 and 2021, respectively, and \$3.3 million and \$1.5 million for the nine months ended September 30, 2022 and 2021, respectively.

As of September 30, 2022	Minimum Lease Payments	Debt Repayments	Total
2022	\$ 658	\$ —	\$ 658
2023	5,610	12,500	18,110
2024	4,184	37,500	41,684
2025	4,297	—	4,297
2026	4,426	—	4,426
Thereafter	24,146	—	24,146
Total minimum payments	43,321	50,000	93,321
Less: amount representing interest/unamortized debt discount	(17,433)	692	(16,741)
Present value of future payments	\$ 25,888	\$ 50,692	76,580
Less: current portion	(2,473)	—	(2,473)
Non-current portion	\$ 23,415	\$ 50,692	\$ 74,107

As of September 30, 2022 and December 31, 2021, the Company's security deposit is in the form of, and recorded as, restricted cash.

## 12. Subsequent Event

In October 2022, the Company entered into a loan and security agreement (the "CIBC Loan Agreement") with Canadian Imperial Bank of Commerce ("CIBC"). The CIBC Loan Agreement provides for a senior secured term loan facility in the aggregate principal amount of \$52.0 million (the "Term Loan Facility") which was borrowed in full.

The Term Loan Facility was used to repay and terminate the Company's previous loan facility (see Note 6), transaction fees, and related expenses.

The Term Loan Facility is scheduled to mature on the fifth anniversary of the Closing Date (the "Maturity Date"). The CIBC Loan Agreement provides for interest-only payments on the Term Loan Facility for the first thirty-six months following the Closing Date (the "Initial Interest-Only Period"). The Initial Interest-Only Period will be extended to an additional twelve months if the Company achieves either (i) \$200.0 million or greater in revenue in any twelve-month period or (ii) \$0 or greater in EBITDA in any six-month

period. Thereafter, amortization payments on the Term Loan Facility will be payable monthly until the Maturity Date in monthly installments equal to 20% of the then outstanding principal amount of the Term Loan Facility divided by 12 plus any accrued and unpaid interest. The Company has the option to prepay the Term Loan Facility without any prepayment charge or fee.

The loan borrowed under the Term Loan Facility bears interest at an annual rate equal to the secured overnight financing rate ("SOFR") (calculated based on an adjustment of .10%, .15% and .25%, respectively, for one-month, three-month or six-month term SOFR as of a specified date, subject to a floor of 1.5%) plus an applicable margin of 2.25%.

The obligations under the CIBC Loan Agreement are secured by substantially all of the Company's assets, including its intellectual property and by a pledge all of the Company's equity interests in its U.S. subsidiaries and 65% of the Company's equity interests in its non-U.S. subsidiaries that are directly owned by the Company. The Company is obligated to maintain in deposit accounts held at CIBC the lesser of (i) \$150.0 million or (ii) all of its non-operating cash.

The Company is currently assessing the accounting impact of the CIBC Loan Agreement on its consolidated financial statements.

## 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 September 30, 2022, we had an install base of 208 AquaBeam Robotic Systems globally, including 139 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 expect to 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. 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 \$51.2 million and incurred a net loss of \$59.0 million for the nine months ended September 30, 2022, compared to revenue of \$24.3 million and a net loss of \$41.5 million for the nine months ended September 30, 2021. As of September 30, 2022, we had cash and cash equivalents of \$249.2 million and an accumulated deficit of \$320.5 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 September 30, 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, cash equivalents, and anticipated revenue 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 September 30, 2022, we had an install base of 208 AquaBeam Robotic Systems globally, including 139 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 expect to 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 we expect 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 expect to 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 expect to 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. 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. 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
United States	92 %	85 %	90 %	83 %
Outside the United States	8 %	15 %	10 %	17 %

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, Net***

##### *Interest Expense*

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

##### *Interest and Other Income, Net*

Interest and other income, 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.

#### **Results of Operations**

The following tables show our results of operations for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Change	
	2022	2021	\$	%
	(in thousands, except percentages)			
Revenue	\$ 20,349	\$ 8,668	\$ 11,681	135 %
Cost of sales	10,118	4,428	5,690	129
Gross profit	10,231	4,240	5,991	141
<i>Gross margin</i>	50 %	49 %		
Operating expenses:				
Research and development	7,582	4,919	2,663	54
Selling, general and administrative	24,754	12,118	12,636	104
Total operating expenses	32,336	17,037	15,299	90
Loss from operations	(22,105)	(12,797)	(9,308)	(73)
Interest expense	(1,455)	(1,469)	14	1
Interest and other income, net	947	163	784	481
Net loss	\$ (22,613)	\$ (14,103)	\$ (8,510)	(60)

	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
	(in thousands, except percentages)			
Revenue	\$ 51,237	\$ 24,335	\$ 26,902	111 %
Cost of sales	24,828	12,986	11,842	91
Gross profit	26,409	11,349	15,060	133
<i>Gross margin</i>	52 %	47 %		
Operating expenses:				
Research and development	19,299	13,917	5,382	39
Selling, general and administrative	62,794	34,765	28,029	81
Total operating expenses	82,093	48,682	33,411	69
Loss from operations	(55,684)	(37,333)	(18,351)	(49)
Interest expense	(4,317)	(4,370)	53	1
Interest and other income, net	1,019	198	821	415
Net loss	\$ (58,982)	\$ (41,505)	\$ (17,477)	(42)

***Comparison of Three and Nine Months Ended September 30, 2022 and 2021***

## Revenue

	Three Months Ended September 30,		Change	
	2022	2021	\$	%
	(in thousands, except percentages)			
System sales and rentals	\$ 10,554	\$ 5,519	\$ 5,035	91 %
Handpieces and other consumables	8,807	2,846	5,961	209
Service	988	303	685	226
Total revenue	<u>\$ 20,349</u>	<u>\$ 8,668</u>	<u>\$ 11,681</u>	135

  

	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
	(in thousands, except percentages)			
System sales and rentals	\$ 28,434	\$ 16,092	\$ 12,342	77 %
Handpieces and other consumables	20,551	7,614	12,937	170
Service	2,252	629	1,623	258
Total revenue	<u>\$ 51,237</u>	<u>\$ 24,335</u>	<u>\$ 26,902</u>	111

Revenue increased \$11.7 million, or 135%, to \$20.3 million during the three months ended September 30, 2022, compared to \$8.7 million during the three months ended September 30, 2021, and increased \$26.9 million or 111% to \$51.2 million during the nine months ended September 30, 2022, compared to \$24.3 million during the nine months ended September 30, 2021. The growth in revenue was primarily attributable to an increase of \$11.2 million and \$25.8 million in revenues derived from the United States for the three and nine months ended September 30, 2022, respectively, resulting from higher sales volumes of both our AquaBeam Robotic System and our single-use disposable handpieces, increases in our average selling prices on both our AquaBeam Robotic System and our single-use disposable handpieces, from the expansion of insurance coverage, and the increase in personnel in our commercial organization. In addition, sales of both our AquaBeam Robotic System and our single-use disposable handpieces outside of the United States had an increase by \$0.4 million in sales volume during the three months ended September 30, 2022, and increased by \$0.8 million in sales volume during the nine months ended September 30, 2022.

### Cost of Sales and Gross Margin

Cost of sales increased \$5.7 million, or 129%, to \$10.1 million during the three months ended September 30, 2022, compared to \$4.4 million during the three months ended September 30, 2021, and increased \$11.8 million or 91%, to \$24.8 million during the nine months ended September 30, 2022, compared to \$13.0 million during the nine months ended September 30, 2021. The increase in cost of sales was primarily attributable to the growth in the number of units sold.

Gross margin increased to 50% during the three months ended September 30, 2022, compared to 49% for the three months ended September 30, 2021, and increased to 52% during the nine months ended September 30, 2022 compared to 47% during the nine months ended September 30, 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

Research and development expenses ("R&D") increased \$2.7 million, or 54%, to \$7.6 million during the three months ended September 30, 2022, compared to \$4.9 million during the three months ended September 30, 2021, and increased \$5.4 million or 39%, to \$19.3 million during the nine months ended September 30, 2022, compared to \$13.9 million during the nine months ended September 30, 2021. The increase in R&D expenses was primarily due

to employee-related expenses from increased headcount 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*

Selling, general, and administrative expenses (SG&A) increased \$12.6 million, or 104%, to \$24.8 million during the three months ended September 30, 2022, compared to \$12.1 million during the three months ended September 30, 2021, and increased \$28.0 million or 81% , to \$62.8 million during the nine months ended September 30, 2022, compared to \$34.8 million. 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 and nine months ended September 30, 2022 and 2021.

#### *Interest and Other Income, Net*

Interest and other income, net, increased both \$0.8 million during the three and nine months ended September 30, 2022 and 2021, respectively due to interest income earned on cash and cash equivalents.

### **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 September 30, 2022, we had cash and cash equivalents of \$249.2 million, an accumulated deficit of \$320.5 million, and \$50.7 million outstanding on our loan facility (which we refinanced in October 2022 as described below). 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, cash equivalents, and anticipated revenue 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 that initially made up to a total of \$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 through June 30, 2022, which is now no longer available. 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 September 30, 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 September 30, 2022, we have drawn on the first two installments. As of September 30, 2022, we had \$50.0 million outstanding under the loan facility.

In October 2022, we entered into a loan and security agreement (the "CIBC Loan Agreement") with Canadian Imperial Bank of Commerce ("CIBC"). The CIBC Loan Agreement provides for a senior secured term loan facility

in the aggregate principal amount of \$52.0 million (the "Term Loan Facility") which was borrowed in full on the Closing Date.

The Term Loan Facility was used to pay off the our previous loan facility, transaction fees, and related expenses.

The Term Loan Facility is scheduled to mature on the fifth anniversary of the Closing Date (the "Maturity Date"). The CIBC Loan Agreement provides for interest-only payments on the Term Loan Facility for the first thirty-six months following the Closing Date (the "Initial Interest-Only Period"). The Initial Interest-Only Period will be extended to an additional twelve months if the we achieve either (i) \$200.0 million or greater in revenue in any twelve-month period or (ii) \$0 or greater in EBITDA in any six-month period. Thereafter, amortization payments on the Term Loan Facility will be payable monthly until the Maturity Date in monthly installments equal to 20% of the then outstanding principal amount of the Term Loan Facility divided by 12 plus any accrued and unpaid interest. We have the option to prepay the Term Loan Facility without any prepayment charge or fee.

The loan borrowed under the Term Loan Facility bears interest at an annual rate equal to the secured overnight financing rate ("SOFR") (calculated based on an adjustment of .10%, .15% and .25%, respectively, for one-month, three-month or six-month term SOFR as of a specified date, subject to a floor of 1.5%) plus an applicable margin of 2.25%.

The obligations under the CIBC Loan Agreement are secured by substantially all of our assets, including our intellectual property and by a pledge all of our equity interests in its U.S. subsidiaries and 65% of our equity interests in its non-U.S. subsidiaries that are directly owned by us. We are obligated to maintain in deposit accounts held at CIBC the lesser of (i) \$150.0 million or (ii) all of our non-operating cash.

## Cash Flows

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

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	\$ (55,208)	\$ (40,858)
Investing activities	(1,787)	(260)
Financing activities	4,930	261,472
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>\$ (52,065)</u>	<u>\$ 220,354</u>

### *Net Cash Used in Operating Activities*

During the nine months ended September 30, 2022, net cash used in operating activities was \$55.2 million, consisting primarily of a net loss of \$59.0 million and an increase in net operating assets of \$6.7 million, partially offset by non-cash charges of \$10.5 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 inventory. Non-cash charges consisted primarily of stock-based compensation and depreciation.

During the nine months ended September 30, 2021, net cash used in operating activities was \$40.9 million, consisting primarily of a net loss of \$41.5 million and an increase in net operating assets of \$4.3 million, partially offset by non-cash charges of \$4.9 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 prepaid expenses, partially offset by

an increase in accounts payable. Non-cash charges consisted primarily of depreciation and stock-based compensation.

#### ***Net Cash Used in Investing Activities***

During the nine months ended September 30, 2022, net cash used in investing activities was \$1.8 million, consisting of purchases of property and equipment. During the nine months ended September 30, 2021, net cash used in investing activities was \$0.3 million, consisting of purchases of property and equipment.

#### ***Net Cash Provided by Financing Activities***

During the nine months ended September 30, 2022, net cash provided by financing activities was \$4.9 million, consisting of proceeds from exercises of stock options. During the nine months ended September 30, 2021, net cash provided by financing activities was \$261.5 million, consisting of proceeds from issuance of Series G preferred stock, net of issuance costs and proceeds from exercises of stock options.

#### **Contractual Commitments and Contingencies**

The information included in Note 11 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. with the exception of the accounting policy change described in Part I, Item I, Note 2, there have been no material changes to our significant accounting policies during the three months ended September 30, 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.

On the last business day of our second quarter in 2022, the aggregate market value of our shares held by non-affiliate stockholders exceeded \$700 million. As a result, as of December 31, 2022, we will be considered a large accelerated filer as defined in Rule 12b-2 under the Exchange Act, and we will cease to be an emerging growth company as defined in the JOBS Act. We will no longer be exempt from the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, and our independent registered public accounting firm will evaluate and report on the effectiveness of internal control over financial reporting.

### **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 \$249.2 million as of September 30, 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. No customers accounted for more than 10% of accounts receivable at September 30, 2022. One customer accounted for 11% of accounts receivable at 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 September 30, 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 September 30, 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. Except as provided below, during the three months ended September 30, 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.

***The terms of our CIBC Loan Agreement require us to meet certain operating and financial covenants and place restrictions on our operating and financial flexibility. If we raise additional capital through debt financing, the terms of any new debt could further restrict our ability to operate our business.***

As of September 30, 2022, we had \$50.0 million outstanding in the form of a term loan under our loan and security agreement with Oxford Finance LLC (the "Oxford Loan"), which was repaid in full and terminated in October 2022. In October 2022, we entered into a loan and security agreement (the "CIBC Loan Agreement") with Canadian Imperial Bank of Commerce ("CIBC"), which we drew down \$52.0 million upon closing. The CIBC Loan Agreement is secured by substantially all of our assets, including all of the capital stock held by us, if any. The loan and security agreement contains a number of restrictive covenants, and the terms may restrict our current and future operations, particularly our ability to respond to certain changes in our business or industry, or take future actions. See the section of this Quarterly Report on Form 10-Q titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness."

The CIBC Loan Agreement contains customary representations and warranties and affirmative covenants and also contains certain restrictive covenants, including, among others, limitations on: the incurrence of additional debt, liens or other encumbrances on property, acquisitions and investments, mergers, consolidations, liquidations and dissolutions, asset sales, dividends and other payments in respect of our capital stock, prepayments of certain debt, transactions with affiliates and changes to our type of business, control of the business or business locations. The loan and security agreement also includes financial covenants that require us to, among other things, meet certain revenue targets detailed in an approved forecast. The loan and security agreement also contains customary events of default. If we fail to comply with such covenants, payments or other terms of the agreement, our lender could declare an event of default, which would give it the right, among other things, to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, our lender would have the right to proceed against the assets we provided as collateral pursuant to the loan and security agreement. If

the debt under the loan and security agreement were accelerated, we may not have sufficient cash or be able to sell sufficient assets to repay this debt, which would harm our business and financial condition.

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

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.

<u>Exhibit No.</u>	<u>Exhibit Description</u>
3.1	<a href="#">Amended and Restated Certificate of Incorporation</a> (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on September 21, 2021)
3.2	<a href="#">Amended and Restated Bylaws</a> (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed on September 21, 2021)
31.1**	<a href="#">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.</a>
31.2**	<a href="#">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.</a>
32.1**	<a href="#">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.</a>
32.2**	<a href="#">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.</a>
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: November 4, 2022

**PROCEPT BIROBOTICS CORPORATION**

/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)



**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: November 4, 2022

By: \_\_\_\_\_ /s/ Kevin Waters

**Kevin Waters**  
**Chief Financial Officer**  
**(Principal Financial Officer and**  
**Principal Accounting Officer)**

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

In connection with the Quarterly Report of PROCEPT BioRobotics Corporation (the "Company") on Form 10-Q for the period ending September 30, 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: November 4, 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.



**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 September 30, 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: November 4, 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.