

Stereotaxis, Inc.  
Form 10-Q  
May 14, 2013  
Table of Contents

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

**FORM 10-Q**

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

For the quarterly period ended March 31, 2013.

.. **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: 000-50884

**STEREOTAXIS, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: Stereotaxis, Inc. - Form 10-Q

**Delaware**  
(State of Incorporation)

**94-3120386**  
(I.R.S. employer  
identification no.)

**4320 Forest Park Avenue Suite 100**

**St. Louis, Missouri**  
(Address of principal executive offices)

**63108**  
(Zip Code)

**Registrant's telephone number, including area code: (314) 678-6100**

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 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  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

The number of outstanding shares of the registrant's common stock on April 30, 2013 was 8,154,500.

---

**Table of Contents**

**STEREOTAXIS, INC.**

**INDEX TO FORM 10-Q**

	<b>Page</b>
Part I Financial Information	
Item 1. Financial Statements (unaudited)	
<u>Balance Sheets</u>	3
<u>Statement of Operations</u>	4
<u>Statement of Cash Flows</u>	5
<u>Notes to Financial Statements</u>	6-17
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18-22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	22-23
<u>Item 4. Controls and Procedures</u>	23
Part II Other Information	
<u>Item 1. Legal Proceedings</u>	23
<u>Item 1A. Risk Factors</u>	24
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 3. Defaults upon Senior Securities</u>	25
<u>Item 4. [Reserved]</u>	25
<u>Item 5. Other Information</u>	25
<u>Item 6. Exhibits</u>	25
<u>Signatures</u>	26
<u>Exhibit Index</u>	27

**Table of Contents****STEREOTAXIS, INC.****BALANCE SHEETS**

	March 31, 2013 (Unaudited)	December 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,560,130	\$ 7,777,718
Accounts receivable, net of allowance of \$634,813 and \$640,183 in 2013 and 2012, respectively	9,842,360	11,551,651
Current portion of long-term receivables	19,067	18,838
Inventories	5,487,887	5,098,241
Prepaid expenses and other current assets	3,475,578	3,492,067
<b>Total current assets</b>	<b>28,385,022</b>	<b>27,938,515</b>
Property and equipment, net	1,878,753	2,141,923
Intangible assets, net	1,904,361	1,979,320
Long-term receivables	18,906	73,199
Other assets	34,158	32,987
<b>Total assets</b>	<b>\$ 32,221,200</b>	<b>\$ 32,165,944</b>
<b>Liabilities and stockholders deficit</b>		
Current liabilities:		
Short-term debt and current maturities of long-term debt	\$ 12,317,760	\$ 12,264,490
Accounts payable	4,737,918	3,556,688
Accrued liabilities	5,038,255	5,361,810
Deferred revenue	9,943,607	9,502,939
Warrants and debt conversion features	2,364,271	2,968,348
<b>Total current liabilities</b>	<b>34,401,811</b>	<b>33,654,275</b>
Long-term debt, less current maturities	20,175,614	16,824,736
Long-term deferred revenue	359,606	477,159
Other liabilities		
Stockholders deficit:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized, none outstanding at 2013 and 2012		
Common stock, par value \$0.001; 300,000,000 shares authorized, 8,145,930 and 8,018,615 shares issued at 2013 and 2012, respectively	8,146	8,019
Additional paid in capital	367,048,042	366,053,627
Treasury stock, 4,015 shares at 2013 and 2012	(205,999)	(205,999)
Accumulated deficit	(389,566,020)	(384,645,873)
<b>Total stockholders deficit</b>	<b>(22,715,831)</b>	<b>(18,790,226)</b>
<b>Total liabilities and stockholders deficit</b>	<b>\$ 32,221,200</b>	<b>\$ 32,165,944</b>

See accompanying notes.

**Table of Contents**

**STEREOTAXIS, INC.**  
**STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenue:</b>		
Systems	\$ 2,228,077	\$ 5,179,505
Disposables, service and accessories	6,180,127	7,103,723
<b>Total revenue</b>	<b>8,408,204</b>	<b>12,283,228</b>
<b>Cost of revenue:</b>		
Systems	1,191,352	2,342,410
Disposables, service and accessories	1,001,293	1,419,421
<b>Total cost of revenue</b>	<b>2,192,645</b>	<b>3,761,831</b>
<b>Gross margin</b>	<b>6,215,559</b>	<b>8,521,397</b>
<b>Operating expenses:</b>		
Research and development	1,529,207	2,825,207
Sales and marketing	4,856,014	5,998,739
General and administrative	3,423,741	3,872,873
<b>Total operating expenses</b>	<b>9,808,962</b>	<b>12,696,819</b>
<b>Operating loss</b>	<b>(3,593,403)</b>	<b>(4,175,422)</b>
Other income (expense)	606,102	(188,070)
Interest income	1,412	1,363
Interest expense	(1,934,258)	(1,450,783)
<b>Net loss</b>	<b>\$ (4,920,147)</b>	<b>\$ (5,812,912)</b>
<b>Net loss per common share:</b>		
Basic	\$ (0.61)	\$ (1.06)
Diluted	\$ (0.61)	\$ (1.06)
<b>Weighted average shares used in computing net loss per common share:</b>		
Basic	8,015,226	5,499,316
Diluted	8,015,226	5,499,316

**See accompanying notes.**

**Table of Contents****STEREOTAXIS, INC.****STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (4,920,147)	\$ (5,812,912)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	263,170	344,455
Amortization	74,958	74,958
Amortization of deferred finance costs and debt discount	860,890	511,079
Share-based compensation	598,827	937,323
Gain/loss on debt conversion	(2,095)	
Adjustment of warrants and convertible debt features	(604,007)	188,070
Interest due from issuance of stock	204,547	
Changes in operating assets and liabilities:		
Accounts receivable	1,709,291	810,557
Other receivables	54,064	20,642
Inventories	(389,646)	(1,178,943)
Prepaid expenses and other current assets	(179,277)	(551,281)
Other assets	(1,170)	(875)
Accounts payable	1,181,230	392,913
Accrued liabilities	(323,555)	20,829
Deferred revenue	323,115	25,318
Other liabilities		(1,533)
Net cash used in operating activities	(1,149,805)	(4,219,400)
<b>Cash flows from investing activities</b>		
Purchase of equipment		(82,272)
Net cash used in investing activities		(82,272)
<b>Cash flows from financing activities</b>		
Payments of term loan	(1,000,000)	(1,000,000)
Proceeds from revolving line of credit	11,235,938	20,695,969
Payments of revolving line of credit	(9,694,979)	(18,334,786)
Proceeds from Healthcare Royalty Partners debt	2,500,000	
Payments of Healthcare Royalty Partners debt	(108,742)	(586,629)
Proceeds from issuance of stock and warrants, net of issuance costs		40,898
Net cash provided by financing activities	2,932,217	815,452
Net increase (decrease) in cash and cash equivalents	1,782,412	(3,486,220)
Cash and cash equivalents at beginning of period	7,777,718	13,954,919
Cash and cash equivalents at end of period	\$ 9,560,130	\$ 10,468,699

See accompanying notes.



---

**Table of Contents**

**STEREOTAXIS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(Unaudited)**

**Notes to Financial Statements**

In this report, Stereotaxis, the Company, Registrant, we, us, and our refer to Stereotaxis, Inc. and its wholly-owned subsidiaries. *Niobe*<sup>®</sup>, *Epoch*, *Odyssey*<sup>®</sup>, *Odyssey Cinema*, *Vdrive*, *Vdrive Duo*, *V-Loop*, and *V-Sono* are trademarks of Stereotaxis, Inc.

***1. Description of Business***

Stereotaxis designs, manufactures and markets the *Epoch* Solution, which is an advanced remote robotic navigation system for use in a hospital's interventional surgical suite, or interventional lab, that we believe revolutionizes the treatment of arrhythmias and coronary artery disease by enabling enhanced safety, efficiency and efficacy for catheter-based, or interventional, procedures. The *Epoch* Solution is comprised of the *Niobe* ES Robotic Magnetic Navigation System ( *Niobe* ES system ), *Odyssey* Information Management Solution ( *Odyssey* Solution ), and the *Vdrive* Robotic Navigation System ( *Vdrive* system ).

The *Niobe* system is designed to enable physicians to complete more complex interventional procedures by providing image guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures and reduced x-ray exposure.

In addition to the *Niobe* system and its components, Stereotaxis also has developed the *Odyssey* Solution, which consolidates all lab information enabling doctors to focus on the patient for optimal procedure efficiency. The system also features a remote viewing and recording capability called the *Odyssey Cinema* solution, which is an innovative solution delivering synchronized content for optimized workflow, advanced care and improved productivity. This tool includes an archiving capability that allows clinicians to store and replay entire procedures or segments of procedures. This information can be accessed from locations throughout the hospital local area network and over the global *Odyssey* Network providing physicians with a tool for clinical collaboration, remote consultation and training.

Our *Vdrive* system provides navigation and stability for diagnostic and therapeutic devices designed to improve interventional procedures. The *Vdrive* system complements the *Niobe* ES system control of therapeutic catheters for fully remote procedures and enables single-operator workflow and is sold as two options, the *Vdrive* system and the *Vdrive Duo* system. In addition to the *Vdrive* system and the *Vdrive Duo* system, we also manufacture and market various disposable components which can be manipulated by these systems.

We promote the full *Epoch* Solution in a typical hospital implementation, subject to regulatory approvals or clearances. The full *Epoch* Solution implementation requires a hospital to agree to an upfront capital payment and recurring payments. The upfront capital payment typically includes equipment and installation charges. The recurring payments typically include disposable costs for each procedure, equipment service costs beyond warranty period, and software licenses. In hospitals where the full *Epoch* Solution has not been implemented, equipment upgrade or expansion can be implemented upon purchasing of the necessary upgrade or expansion.

The core components of Stereotaxis systems have received regulatory clearance in the U.S., Europe, Canada and elsewhere; the *V-Loop* circular catheter manipulator is currently in human clinical trials in order to obtain clearance by the U.S. Food and Drug Administration. The *V-Sono* ICE catheter manipulator is also under regulatory review by the U.S. Food and Drug Administration.

Since our inception, we have generated significant losses. As of March 31, 2013 we had incurred cumulative net losses of approximately \$390 million. In May 2011, the Company introduced the *Niobe* ES system, which is the latest generation of the *Niobe* Robotic Magnetic Navigation System and will replace the *Niobe* II system going forward. As of March 31, 2013, the Company had an installed base of 81 *Niobe* ES systems and has received positive feedback from the physicians at these sites. During the third quarter of 2011, the Company implemented a wide ranging plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. During the year ended December 31, 2012, the Company reduced operating expenses by approximately \$19 million or 31% over the prior year. We expect to incur additional losses throughout the remainder of 2013 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund additional sales and marketing initiatives.



**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited financial statements of Stereotaxis, Inc. have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, they include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Operating results for the three month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013 or for future operating periods.

These interim financial statements and the related notes should be read in conjunction with the annual financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission (SEC) on April 1, 2013.

---

## **Table of Contents**

As described in Note 10, on July 10, 2012, the Company effected a one-for-ten reverse stock split of the Company's common stock. All information set forth in the financial statements and related notes gives effect to such reverse stock split.

### ***Financial Instruments***

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including warrants and debt conversion feature. General accounting principles for fair value measurement established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities ( Level 1 ) and the lowest priority to unobservable inputs ( Level 3 ). See Note 11 for additional details.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for other financial instruments as of March 31, 2013 and December 31, 2012.

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses have carrying values which approximate fair value due to the short maturity or the financial nature of these instruments.

Long and short-term debt fair value estimates are based on estimated borrowing rates to discount the cash flows to their present value. See Note 9 for disclosure of the fair value of debt.

### ***Revenue and Costs of Revenue***

The Company adopted Accounting Standards Update 2009-13, *Multiple-Deliverable Revenue Arrangements* ( ASU 2009-13 ) in the fourth quarter of 2009, effective as of January 1, 2009. Prior to the adoption of this guidance, the Company followed previously issued guidance for general accounting principles for revenue arrangements with multiple deliverables. Under this previously issued guidance, we were required to continually evaluate whether we had proper evidence to identify separate units of accounting for deliverables within certain contractual arrangements with customers. If we were unable to support the determination of vendor-specific objective evidence ( VSOE ) or third party evidence ( TPE ) of fair value on the undelivered element, we could not recognize revenue for the delivered elements.

ASU 2009-13 permits management to estimate the selling price of undelivered components of a bundled sale for which it is unable to establish VSOE or TPE. This requires management to record revenue for certain elements of a transaction even though it might not have delivered other elements of the transaction, for which it was unable to meet the requirements for establishing VSOE or TPE. The adoption of the new guidance did not materially impact revenue reported in prior periods. The Company believes that the new guidance significantly improves the reporting of these types of transactions to more closely reflect the underlying economic circumstances. This guidance also prohibits the use of the residual method for allocating revenue to the various elements of a transaction and requires that the revenue be allocated proportionally based on the relative estimated selling prices.

Under our revenue recognition policy before and after the adoption of ASU 2009-13, a portion of revenue for the *Niobe*, *Odyssey Vision*, *Odyssey Cinema*, and *Vdrive* systems is recognized upon delivery, provided that title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. Revenue is recognized for other types of *Odyssey* systems upon completion of installation, since there are no qualified third party installers. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since these arrangements do not include an installation element or right of return privileges. The Company does not recognize revenue in situations in which inventory remains at a Stereotaxis warehouse or in situations in which title and risk of loss have not transferred to the customer. However, the Company may deliver systems to a non-hospital site at the customer's request as outlined in the terms and conditions of the sales agreement, in which case the Company evaluates whether the substance of the transaction meets the delivery and performance requirements for revenue recognition under bill and hold guidance. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multiple-deliverable arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and establish an appropriate reserve for returns. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimus effect on revenue recognized in the period. We believe that the estimate is not likely to change significantly in the future.

Costs of systems revenue include direct product costs, installation labor and other costs, estimated warranty costs, and initial training and product maintenance costs. These costs are recorded at the time of sale. Costs of disposable revenue include direct product costs and estimated warranty costs and are recorded at the time of sale. Cost of revenue from services and license fees are recorded when incurred.

*Share-Based Compensation*

The Company accounts for its grants of stock options, stock appreciation rights, restricted shares, and restricted stock units and for its employee stock purchase plan in accordance with the provisions of general accounting principles for share-based payments. These accounting principles require the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation vests.

The Company utilizes the Black-Scholes valuation model to determine the fair value of stock options and stock appreciation rights at the date of grant. The resulting compensation expense is recognized over the requisite service period, which is generally four years. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated based on the Company's historical experience and future expectations. Restricted shares granted to employees are valued at the fair market value at the date of grant. The Company amortizes the amount to expense over the service period on a straight-line basis. If the shares are subject to performance objectives, the resulting compensation expense is amortized over the anticipated vesting period and is subject to adjustment based on the actual achievement of objectives.

**Table of Contents****Net Earnings (Loss) per Common Share ( EPS )**

Basic and diluted net loss per common share ( EPS ) is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period.

The following table sets forth the computation of basic and diluted EPS:

	<b>Three months ended March 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Numerator:</b>		
Numerator for basic EPS	\$ (4,920,147)	\$ (5,812,912)
Effect of dilutive securities:		
Numerator for diluted EPS	\$ (4,920,147)	\$ (5,812,912)
<b>Denominator:</b>		
Denominator for basic EPS weighted average shares	8,015,226	5,499,316
Effect of dilutive securities:		
Denominator for diluted EPS	8,015,226	5,499,316
Basic EPS	\$ (0.61)	\$ (1.06)
Diluted EPS	\$ (0.61)	\$ (1.06)

The Company did not include any portion of unearned restricted shares, outstanding options, stock appreciation rights or warrants in the calculation of diluted loss per common share because all such securities are anti-dilutive for all periods presented. The application of the two-class method of computing earnings per share under general accounting principles for participating securities is not applicable during these periods because those securities do not contractually participate in its losses.

As of March 31, 2013, the Company had 319,438 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$44.74 per share and 6,042,251 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$8.91 per share. The Company had a weighted average of 52,573 unearned restricted shares outstanding for the period ended March 31, 2013.

**Recently Issued Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU or Update ) 2013-02, Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income ( AOCI ). The update requires that the Company present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of AOCI based on its source and the income statement line items affected by the reclassification. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2012. As the Company has no items of other comprehensive income, the Company is not required to report accumulated other comprehensive income.

In December 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The Update enhances the disclosure of offsetting assets and liabilities by requiring companies to disclose both the gross and net information about instruments and transactions eligible for offset as well as those subject to an agreement similar to master netting arrangements. This guidance is effective for the Company s interim and annual periods beginning January 1, 2013. The adoption of this pronouncement did not have an impact on the financial statements.

In June 2011, the FASB issued new accounting guidance related to the presentation of comprehensive income that increases comparability between U.S. GAAP and International Financial Reporting Standards ( IFRS ). This guidance eliminates the current option to report other comprehensive income (OCI) and its components in the statement of changes in stockholders equity and requires the presentation of a separate statement of comprehensive income. This guidance was effective for the Company s interim and annual periods beginning January 1, 2012. As the Company has no items of other comprehensive income, the Company is not required to report comprehensive income or other

comprehensive income.

**Table of Contents****3. Inventory**

Inventory consists of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Raw materials	\$ 3,430,999	\$ 3,303,053
Work in process	319,954	65,546
Finished goods	1,790,126	1,802,281
Reserve for obsolescence	(53,192)	(72,639)
<b>Total inventory</b>	<b>\$ 5,487,887</b>	<b>\$ 5,098,241</b>

**4. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Prepaid expenses	\$ 641,441	\$ 330,756
Deferred cost of revenue	599,697	527,725
Derivative asset	1,666	1,736
Deferred financing	1,395,221	1,590,916
Deposits	837,553	1,040,934
<b>Total prepaid expenses and other current assets</b>	<b>\$ 3,475,578</b>	<b>\$ 3,492,067</b>

Deferred cost of revenue represents the cost of systems for which title has transferred from the Company but for which revenue has not been recognized.

The derivative asset represents the fair value of a debt conversion feature that is part of the subordinated convertible debentures agreement. Refer to Notes 9 and 11 for discussion of the debentures and fair value measurement, respectively.

**Table of Contents****5. Property and Equipment**

Property and equipment consist of the following:

	March 31, 2013	December 31, 2012
Equipment	\$ 8,762,041	\$ 8,762,041
Equipment held for lease	303,412	303,412
Leasehold improvements	2,328,381	2,328,381
	11,393,834	11,393,834
Less: Accumulated depreciation	(9,515,081)	(9,251,911)
Net property and equipment	\$ 1,878,753	\$ 2,141,923

**6. Intangible Assets**

On June 4, 2010, the Company entered into an agreement to issue 45,000 shares of its common stock to a consultant (the Purchaser) in exchange for intellectual property rights related to the Company's products. The Company issued 20,000 shares upon execution of the agreement and will issue an aggregate of 25,000 shares in annual installments on the first three anniversaries of the agreement. The unissued shares meet the criteria for equity classification under Accounting Standards Codification (ASC) 480 Distinguishing Liabilities from Equity and therefore are recorded in additional paid-in capital. There was no cash consideration paid for the securities. The securities were issued in consideration of the assignment to the Company of the Purchaser's rights in certain intellectual property, including patent applications, in all inventions and discoveries in the Company's business field (as defined in the agreement) that had been developed under various other agreements, which were terminated. The securities were sold by the Company in a private placement exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder. There were no underwriters or placement agents involved in the transaction.

As of March 31, 2013, the Company had total intangible assets, including those described above, of \$3,665,000. Accumulated amortization at March 31, 2013, was \$1,760,639.

**7. Accrued Liabilities**

Accrued liabilities consist of the following:

	March 31, 2013	December 31, 2012
Accrued salaries, bonus, and benefits	\$ 1,885,176	\$ 2,123,167
Accrued rent	1,120,909	1,095,641
Accrued product warranty	604,388	653,473
Accrued interest	524,885	469,049
Accrued license and maintenance fees	305,977	323,901
Other	596,920	696,579
Total accrued liabilities	\$ 5,038,255	\$ 5,361,810

**Table of Contents****8. Deferred Revenue**

Deferred revenue consists of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Product shipped, revenue deferred	\$ 3,510,417	\$ 3,206,641
Customer deposits	466,904	558,227
Deferred service and license fees	6,325,892	6,215,230
	10,303,213	9,980,098
Less: Long-term deferred revenue	(359,606)	(477,159)
Total current deferred revenue	\$ 9,943,607	\$ 9,502,939

**9. Long-Term Debt and Credit Facilities**

Debt outstanding consists of the following:

	<b>March 31, 2013</b>		<b>December 31, 2012</b>	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Revolving line of credit, due June 2013	\$ 8,793,977	\$ 8,803,667	\$ 7,253,017	\$ 7,277,084
Term note, due December 2013	3,000,000	3,000,000	4,000,000	4,000,000
Healthcare Royalty Partners debt	18,639,333	18,639,333	16,248,075	16,248,075
Subordinated convertible debentures	2,060,064	2,060,064	1,588,134	1,588,134
Total debt	32,493,374	32,503,064	29,089,226	29,113,293
Less current maturities	(12,317,760)	(12,327,450)	(12,264,490)	(12,288,557)
Total long term debt	\$ 20,175,614	\$ 20,175,614	\$ 16,824,736	\$ 16,824,736



---

## **Table of Contents**

### ***Revolving line of credit***

In September 2011, the Company amended its agreement with its primary lender. The amendment reduced the availability amount of all credit extensions, other than the term loan, from \$30 million to \$20 million, and modified the interest rate applicable to the term loan from the lender's prime rate plus 3.5% to the lender's prime rate plus 5.5%.

On November 30, 2011, the Company entered into a Second Amended and Restated Loan and Security Agreement with its primary lender (the "Amended Loan Agreement"). Under the Amended Loan Agreement, the Company agreed to revised tangible net worth and liquidity ratio covenants. Further, certain intellectual property assets of the Company were added to the collateral which secures repayment of the loan. Finally, the Amended Loan Agreement permits the Company to repay Healthcare Royalty Partners II, L.P. (the "Healthcare Royalty Partners"), formerly Cowen Healthcare Royalty Partners II, L.P., with the royalties due to the Company under the Biosense Agreement (the "Biosense Agreement"), as described below.

On March 30, 2012, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from March 31, 2012 to April 30, 2012 and reduced the Company's borrowing availability by \$3,333,333. The Company also extended until April 30, 2012 the \$10 million guarantees from stockholders who at the time were affiliates of two members of our board of directors (the "Lenders") and considered to be related parties. As a result of this extension, the Company issued the Lenders warrants to purchase 75,735 shares of common stock at \$6.60 per share.

On May 1, 2012, the Company and its primary lender entered into an agreement in which the lender extended the maturity of the revolving line of credit from April 30, 2012 to May 15, 2012. The Company also amended its agreement with the Lenders to extend the \$10 million loan guarantee through May 15, 2012. The Company granted warrants to purchase an aggregate of 60,976 shares of common stock in exchange for the extension of the guarantee.

On May 10, 2012, upon closing of financing transactions for gross proceeds of \$18.5 million, the Company entered into the Third Loan Modification Agreement with its primary lender. The amendment extended the revolving credit facility maturity to March 31, 2013 and revised the financial covenants. Additionally, the revolving line of credit was decreased from \$20 million to \$13 million. The reduction was as result of the pay down of \$7 million of the guarantees provided by the Lenders.

On March 29, 2013, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from March 31, 2013 to June 30, 2013. The Company also extended until June 30, 2013 the \$3 million guarantee by the Lenders. As a result of this extension, the Company issued the Lenders warrants to purchase 113,636 shares of common stock at \$1.98 per share.

As of March 31, 2013, the Company had \$8.8 million outstanding under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one week in arrears. As of March 31, 2013, the Company had a borrowing capacity of \$8.9 million based on the Company's collateralized assets, including amounts already drawn. As such, the Company had the ability to borrow an additional \$0.1 million under the revolving line of credit at March 31, 2013. As of March 31, 2013, the Company was in compliance with all covenants of the bank loan agreement and had no remaining availability on its Lender loan and guarantee.

The revolving line of credit and the Company's term notes (collectively, the "Credit Agreements") are secured by substantially all of the Company's assets. The Company is also required under the Credit Agreements to maintain its primary operating account and the majority of its cash and investment balances in accounts with the primary lender.

### ***Term note***

Under the 2010 amendment to the loan agreement, the Company entered into a \$10 million term loan maturing on December 31, 2013, with \$2 million of principal due in 2011 and \$4 million of principal due in each of 2012 and 2013. Interest on the term loan accrued at the rate of prime plus 3.5%. Under the September 2011 amendment of the loan agreement, the interest rate on the term loan was increased to prime plus 5.5%. Under this agreement, the Company provided its primary lender with warrants to purchase 11,111 shares of common stock. The warrants are exercisable at \$36.00 per share, beginning on December 17, 2010 and expiring on December 17, 2015. The fair value of these warrants of \$228,332, calculated using the Black-Scholes method, will be deferred and amortized to interest expense ratably over the life of the term loan.

### ***Healthcare Royalty Partners Debt***

In November 2011, the Company entered into a loan agreement with Healthcare Royalty Partners. Under the agreement the Company borrowed from Healthcare Royalty Partners \$15 million. The Company was permitted to borrow up to an additional \$5 million in the aggregate based on

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

the achievement by the Company of certain milestones related to *Niobe* system sales in 2012. On August 8, 2012, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* system sales for the nine months ended June 30, 2012. On January 31, 2013, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* system sales for the twelve months ended December 31, 2012. The loan will be repaid through, and secured by, royalties payable to the Company under its Development, Alliance and Supply Agreement with Biosense Webster, Inc. The Biosense Agreement relates to the development and distribution of magnetically enabled catheters used with Stereotaxis *Niobe* system in cardiac ablation procedures. Under the terms of the Agreement, Healthcare Royalty Partners will be entitled to receive 100% of all royalties due to the Company under the Biosense Agreement until the loan is repaid. The loan is a full recourse loan, matures on December 31, 2018, and bears interest at an annual rate of 16% payable quarterly with royalties received under the Biosense Agreement. If the payments received by the Company under the Biosense Agreement are insufficient to pay all amounts of interest due on the loan, then such deficiency will increase the outstanding principal amount on the loan. After the loan obligation is repaid, the royalties under the Biosense Agreement will again be paid to the Company. The loan is also secured by certain assets and intellectual property of the Company. The Agreement also contains customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender under the Amended Loan Agreement described above.

---

## **Table of Contents**

### ***Subordinated Convertible Debentures***

In May 2012, the Company entered into a securities purchase agreement with certain institutional investors whereby the Company agreed to sell an aggregate of approximately \$8.5 million in aggregate principal amount of unsecured, subordinated, convertible debentures (the *Debentures*), which became convertible into shares of the Company's common stock at a conversion price of \$3.361 per share (or approximately 2.5 million shares in the aggregate), on July 10, 2012, the date that the Company received shareholder approval for the transaction. The purchasers of the Debentures also received six-year warrants to purchase an aggregate of approximately 2.5 million shares of the Company's common stock at an exercise price of \$3.361 per share. The Debentures bear interest at 8% per year and mature on May 7, 2014. In addition, the Company has the ability to issue shares of its common stock in lieu of cash interest payments under certain circumstances, and intends to do so at such time as the Company has registered the shares for resale.

The Company recorded the Debentures on the balance sheet net of the debt discount. The debt discount of \$7.5 million is due to warrants issued in conjunction with the Debentures and the debt conversion features. Upon issuance of the Debentures, the fair value of the warrants and derivative liability were \$4.1 million and \$3.5 million, respectively. The debt discount will be amortized over the life of the loan using the effective interest method and the warrants and derivative liability will be recorded at fair value on each reporting period. Refer to Note 11 for additional discussion of the fair value of the warrants and conversion features.

### ***10. Stockholders' Equity***

#### ***Reverse Stock Split***

On July 10, 2012, the Company filed a Certificate of Amendment to our Amended and Restated Certificate of Incorporation to implement a one-for-ten reverse split of our common stock (the *Reverse Stock Split*). The ratio for the Reverse Stock Split was determined by our Board of Directors pursuant to the approval of the stockholders at the Company's special meeting of stockholders held on July 10, 2012, authorizing the Board to effect a reverse stock split within a range of one-for-four to one-for-ten shares of the Company's common stock. The Reverse Stock Split was effective as of July 10, 2012, and the Company's common stock began trading on the NASDAQ Global Market on a post-split basis on July 11, 2012.

As a result of the Reverse Stock Split, each ten shares of the Company's issued and outstanding common stock were automatically combined and converted into one issued and outstanding share of common stock. The Reverse Stock Split affected all issued and outstanding shares of the Company's common stock, as well as common stock underlying stock options, stock appreciation rights, restricted stock, restricted stock units, warrants and convertible debentures outstanding immediately prior to the effectiveness of the Reverse Stock Split. The Reverse Stock Split reduced the number of shares of the Company's common stock outstanding from approximately 78 million to 7.8 million at the time of the Reverse Stock Split. In addition, the Amendment increased the number of authorized shares of the Company's common stock from 100 million to 300 million. The Reverse Stock Split did not alter the par value of common stock, which remained \$0.001 per share, or modify any voting rights or other terms of the Company's common stock. Unless otherwise indicated, all information set forth herein gives effect to such Reverse Stock Split.

#### ***Public Offerings of Common Stock***

In May 2012, the Company entered into a Stock and Warrant Purchase Agreement with certain institutional investors whereby it agreed to sell an aggregate of approximately 2.17 million shares of the Company's common stock (the *PIPE Common Stock*) at a price of \$3.361 per share, together with six-year warrants at a price of \$1.25 per share to purchase an aggregate of approximately 2.17 million shares of common stock having an exercise price of \$3.361 per share (the *PIPE Warrants*). Each purchaser received a PIPE Warrant to purchase one share of common stock for every share of PIPE Common Stock purchased.

Net proceeds from the sale of the securities were approximately \$9.1 million, after placement agent fees and other offering expenses. The Company used the funds to repay \$7 million of the revolving credit facility guaranteed by the Lenders and plans to use the balance for working capital and general corporate purposes.

#### ***Stock Award Plans***

The Company has various stock plans that permit the Company to provide incentives to employees and directors of the Company in the form of equity compensation. In August 2012, the Board of Directors adopted a stock incentive plan (the *2012 Stock Incentive Plan*) which was subsequently approved by the Company's stockholders. This plan replaces the 2002 Stock Incentive Plan which expired on March 25, 2012. At March 31, 2013, the Board of Directors had 28,014 remaining shares of the Company's common stock to provide for current and future grants

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

under its various equity plans.

At March 31, 2013, the total compensation cost related to options, stock appreciation rights and non-vested stock granted to employees under the Company's stock award plans but not yet recognized was approximately \$2.9 million, net of estimated forfeitures of approximately \$1.8 million. This cost will be amortized over a period of up to four years on a straight-line basis over the underlying estimated service periods and will be adjusted for subsequent changes in estimated forfeitures and anticipated vesting periods.

**Table of Contents**

A summary of the option and stock appreciation rights activity for the three month period ended March 31, 2013 is as follows:

	Number of Options/SARs	Range of Exercise Price		Weighted Average Exercise Price per Share
Outstanding, December 31, 2012	373,899	\$1.63	\$116.40	\$ 43.90
Granted		\$0.00	\$0.00	
Exercised		\$0.00	\$0.00	
Forfeited	(54,461)	\$8.10	\$68.60	\$ 38.96
Outstanding, March 31, 2013	319,438	\$1.63	\$116.40	\$ 44.74

A summary of the restricted share grant activity for the three month period ended March 31, 2013 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding, December 31, 2012	68,543	\$ 20.62
Granted		
Vested	(33)	\$ 33.80
Forfeited	(16,445)	\$ 16.70
Outstanding, March 31, 2013	52,065	\$ 21.85

A summary of the restricted shares outstanding as of March 31, 2013 is as follows:

	Number of Shares
Time based restricted shares	7,975
Performance based restricted shares	44,090
Outstanding, March 31, 2013	52,065

A summary of the restricted stock unit activity for the three month period ended March 31, 2013 is as follows:

	Number of Restricted Shares Units	Weighted Average Grant Date Fair Value per Unit
Outstanding, December 31, 2012	529,312	\$ 2.64
Granted	266,334	\$ 2.49
Vested	(52,522)	\$ 10.23
Forfeited	(91,977)	\$ 2.23
Outstanding, March 31, 2013	651,147	\$ 2.02

**11. Fair Value Measurements**

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents and warrants. General accounting principles for fair value measurement established a fair value hierarchy that prioritizes the inputs to valuation techniques used to

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities ( Level 1 ) and the lowest priority to unobservable inputs ( Level 3 ). The three levels of the fair value hierarchy are described below:

**Table of Contents**

- Level 1: Values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Values are generated from model-based techniques that use significant assumptions not observable in the market. The following table sets forth the Company's assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. As required by the Fair Value Measurements and Disclosures topic of the Accounting Standards Codification, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

		Fair Value Measurement Using		
		Quoted Prices in		
		Active	Significant	Significant
		Markets	Other	Unobservable
		for Identical	Observable	Inputs
		Instruments	Inputs	Inputs
		(Level 1)	(Level 2)	(Level 3)
	Total			
<b>Assets at March 31, 2013:</b>				
Cash equivalents	\$ 835	835		
Derivative asset	1,666			1,666
Total assets at fair value	\$ 2,501	835		1,666
<b>Liabilities at March 31, 2013:</b>				
Warrants issued December 29, 2008	\$ 26,008			26,008
Warrants issued May 10, 2012	1,961,220			1,961,220
Derivative liability	377,043			377,043
Total liabilities at fair value:	\$ 2,364,271			2,364,271
<b>Assets at December 31, 2012:</b>				
Cash equivalents	\$ 256,702	256,702		
Derivative asset	1,736			1,736
Total assets at fair value	\$ 258,438	256,702		1,736
<b>Liabilities at December 31, 2012:</b>				
Warrants issued December 29, 2008	\$ 71,581			71,581
Warrants issued May 10, 2012	2,347,902			2,347,902
Derivative liability	548,865			548,865
Total liabilities at fair value:	\$ 2,968,348			2,968,348

*Level 1*

The Company's financial assets consist of cash equivalents invested in money market funds in the amount of \$835 and \$256,702 at March 31, 2013 and December 31, 2012, respectively. These assets are classified as Level 1 as described above and total interest income recorded for these investments was insignificant during both the three month periods ended March 31, 2013 and March 31, 2012. There were no transfers in or out of Level 1 during the period ended March 31, 2013.

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

### *Level 2*

The Company does not have any financial assets or liabilities classified as Level 2.

### *Level 3*

In conjunction with its December 29, 2008 registered direct offering, the Company issued warrants to purchase 179,241 shares of the Company's common stock that contained a provision that required a reduction of the exercise price if certain equity events occurred. Under the provisions of general accounting principles for derivatives and hedging activities and determining whether an instrument (or embedded feature) is indexed to an entity's own stock, such a reset provision does not meet the exemptions for equity classification and as such, the Company accounts for these warrants as derivative instruments. The calculated fair value of the warrants is classified as a liability and is periodically remeasured with any changes in value recognized in Other income (expense) in the Statement of Operations. General accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity's own stock became effective for the Company as of January 1, 2009. Accordingly, the fair value of the warrants as of that date was reclassified from stockholders' equity into current liabilities.



**Table of Contents**

In accordance with general accounting principles for fair value measurement, the Company's warrants in the amount of \$26,008 were measured at fair value on a recurring basis as of March 31, 2013 and were valued using Level 3 valuation inputs. A Black-Scholes model was used to value the Company's warrants at March 31, 2013 using the following assumptions: 1) dividend yield of 0%; 2) volatility of 112.24%; 3) risk-free interest rate of 0.36%; and 4) expected life of 1.2 years.

In the Company's May 2012 financing transaction, the Company issued subordinated convertible debentures and warrants. The optional conversion feature of the subordinated convertible debentures is classified as a derivative liability within Warrants and debt conversion features on the Company's balance sheet. The warrants issued in conjunction with the Debentures and PIPE are also considered a liability. Due to the provisions included in the warrant agreements, the warrants do not meet the exemptions for equity classification and as such, the Company accounts for these warrants as derivative instruments. The warrants and derivative liability are periodically remeasured with any changes in value recognized in Other income (expense) in the Statement of Operations.

Per the terms of the Debentures agreement, the Company may require each holder to convert up to 50% of the Debentures if the common stock closes above \$15.00, or 100% of the Debentures if the common stock closes above \$20.00 (in each case, as adjusted for stock splits, recapitalizations and similar events) during a 20 consecutive trading day period and the resale registration statement has been declared effective by the SEC and is available for the issuance of the common stock upon conversion of the Debentures. In the event of any forced conversion by the Company, the minimum amount that the Company can force the holders to convert shall be \$2.5 million of Debentures in the aggregate. This mandatory redemption clause is classified as a derivative asset within Prepaid and other current assets on the Company's balance sheet. The derivative asset is periodically remeasured with any changes in value recognized in Other income (expense) in the Statement of Operations.

In accordance with general accounting principles for fair value measurement, the Company's warrants, derivative liability, and derivative asset were measured at fair value on a recurring basis as of March 31, 2013 and were valued using Level 3 valuation inputs. A Monte-Carlo simulation was used to value the derivative asset and liabilities upon issuance on May 10, 2012 using the following assumptions: 1) volatility of 80%; 2) risk-free interest rate of 1.035%; and 3) a closing stock price of \$3.413. The derivative asset and liabilities were revalued as of March 31, 2013 using the following assumptions: 1) volatility of 95%; 2) risk-free interest rate of 0.796%; and 3) a closing stock price of \$2.00.

The significant unobservable input used in the fair value measurement of the Company's warrants, derivative liability, and derivative asset is volatility. Significant increases (decreases) in the volatility in isolation would result in a significantly higher (lower) asset and liability fair value measurements.

The following table sets forth a summary of changes in the fair value of the Company's Level 3 financial asset and liabilities for the three month period ended March 31, 2013:

	Derivative Asset	Total Assets	Warrants issued December 29, 2008	Warrants issued May 2012	Derivative Liability	Total Liabilities
Balance at beginning of period <sup>(1)</sup>	\$ 1,736	\$ 1,736	\$ 71,581	\$ 2,347,902	\$ 548,865	\$ 2,968,348
Settlements					(1,631)	(\$1,631)
Revaluation	(70)	(70)	(45,573)	(386,682)	(170,191)	(602,446)
Balance at end of period	\$ 1,666	\$ 1,666	\$ 26,008	\$ 1,961,220	\$ 377,043	\$ 2,364,271

<sup>(1)</sup> The beginning of the period is December 31, 2012 for warrants issued December 29, 2008. The beginning of the period for the derivative asset, warrants issued May 10, 2012, and derivative liability is May 10, 2012.

The Company currently does not have derivative instruments to manage its exposure to currency fluctuations or other business risks. The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. All derivative financial instruments are recognized in the balance sheet at fair value.

**12. Product Warranty Provisions**

The Company's standard policy is to warrant all *Niobe*, *Odyssey*, and *Vdrive* systems against defects in material or workmanship for one year following installation. The Company's estimate of costs to service the warranty obligations is based on historical experience and current product

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

performance trends. A regular review of warranty obligations is performed to determine the adequacy of the reserve and adjustments are made to the estimated warranty liability as appropriate.

**Table of Contents**

Accrued warranty, which is included in other accrued liabilities, consists of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Warranty accrual, beginning of the fiscal period	\$ 653,473	\$ 691,832
Warranty expense incurred	19,839	650,367
Payments made	(68,924)	(688,726)
Warranty accrual, end of the fiscal period	\$ 604,388	\$ 653,473

***13. Commitments and Contingencies***

The Company at times becomes a party to claims in the ordinary course of business. Management believes that the ultimate resolution of pending or threatened proceedings will not have a material effect on the financial position, results of operations or liquidity of the Company.

In 2012, the Company entered into a letter of credit to support a commitment in the amount of approximately \$0.1 million. This letter of credit is valid through 2015.

***14. Subsequent Events***

None.

## Table of Contents

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

*The following discussion and analysis should be read in conjunction with our financial statements and notes thereto included in this report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2012. Operating results are not necessarily indicative of results that may occur in future periods. As described in Note 10 to the financial statements, on July 10, 2012, the Company effected a one-for-ten Reverse Stock Split of the Company's common stock. All information set forth in the following discussion and analysis gives effect to such Reverse Stock Split.*

*This report includes various forward-looking statements that are subject to risks and uncertainties, many of which are beyond our control. Our actual results could differ materially from those anticipated in these forward looking statements as a result of various factors, including those set forth in Item 1A. Risk Factors. Forward-looking statements discuss matters that are not historical facts. Forward-looking statements include, but are not limited to, discussions regarding our operating strategy, sales and marketing strategy, regulatory strategy, industry, economic conditions, financial condition, liquidity and capital resources and results of operations. Such statements include, but are not limited to, statements preceded by, followed by or that otherwise include the words believes, expects, anticipates, intends, estimates, projects, can, could, may, will, would, or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not unduly rely on these forward-looking statements, which speak only as of the date on which they were made. They give our expectations regarding the future but are not guarantees. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.*

#### **Overview**

Stereotaxis designs, manufactures and markets the *Epoch* Solution, which is an advanced remote robotic navigation system for use in a hospital's interventional surgical suite, or interventional lab, that we believe revolutionizes the treatment of arrhythmias and coronary artery disease by enabling enhanced safety, efficiency and efficacy for catheter-based, or interventional, procedures. The *Epoch* Solution is comprised of the *Niobe* ES Robotic Magnetic Navigation System ( *Niobe* ES system ), *Odyssey* Information Management Solution ( *Odyssey* Solution ), and the *Vdrive* Robotic Navigation System.

The *Niobe* system is designed to enable physicians to complete more complex interventional procedures by providing image guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures and reduced x-ray exposure.

In addition to the *Niobe* system and its components, Stereotaxis also has developed the *Odyssey* Solution, which consolidates all lab information enabling doctors to focus on the patient for optimal procedure efficiency. The system also features a remote viewing and recording capability called the *Odyssey Cinema* solution, which is an innovative solution delivering synchronized content for optimized workflow, advanced care and improved productivity. This tool includes an archiving capability that allows clinicians to store and replay entire procedures or segments of procedures. This information can be accessed from locations throughout the hospital local area network and over the global *Odyssey* Network providing physicians with a tool for clinical collaboration, remote consultation and training.

Our *Vdrive* Robotic Navigation System provides navigation and stability for diagnostic and therapeutic devices designed to improve interventional procedures. The *Vdrive* Robotic Navigation System complements the *Niobe* ES system control of therapeutic catheters for fully remote procedures and enables single-operator workflow and is sold as two options, the *Vdrive* System and the *Vdrive Duo* System. In addition to the *Vdrive* System and the *Vdrive Duo* System, we also manufacture and market various disposable components which can be manipulated by these systems.

We promote the full *Epoch* Solution in a typical hospital implementation, subject to regulatory approvals or clearances. The full *Epoch* Solution implementation requires a hospital to agree to an upfront capital payment and recurring payments. The upfront capital payment typically includes equipment and installation charges. The recurring payments typically include disposable costs for each procedure, equipment service costs beyond warranty period, and software licenses and *Odyssey* Network fees. In hospitals where the full *Epoch* Solution has not been implemented, equipment upgrade or expansion can be implemented upon purchasing of the necessary upgrade or expansion.

The core components of Stereotaxis systems have received regulatory clearance in the U.S., Europe, Canada and elsewhere; the *V-Loop* circular catheter manipulator is currently in human clinical trials in order to obtain clearance by the U.S. Food and Drug Administration. The *V-Sono* ICE catheter manipulator is also under regulatory review by the U.S. Food and Drug Administration.

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

Since our inception, we have generated significant losses. As of March 31, 2013 we had incurred cumulative net losses of approximately \$390 million. In May 2011, the Company introduced the *Niobe* ES system, which is the latest generation of the *Niobe* Robotic Magnetic Navigation System and will replace the *Niobe* II system going forward. As of March 31, 2013, the Company had an installed base of 81 *Niobe* ES systems and has received positive feedback from the physicians at these sites. During the third quarter of 2011, the Company implemented a wide ranging plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. During the year ended December 31, 2012, the Company reduced operating expenses by approximately \$19 million or 31% over the prior year. We expect to incur additional losses throughout the remainder of 2013 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund additional sales and marketing initiatives.

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are 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 judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. We review our estimates and judgments on an on-going basis. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We believe the following accounting policies are critical to the judgments and estimates we use in preparing our financial statements. For a complete listing of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2012.

#### ***Revenue Recognition***

For arrangements with multiple deliverables, the Company allocates the total revenue to each deliverable based on the provisions of general accounting principles for revenue recognition and multiple-deliverable revenue arrangements and recognizes revenue for each separate element as the criteria for revenue recognition are met. Each element is assigned an estimated selling price using vendor-specific objective evidence, third party evidence, or management's estimate.

Under our revenue recognition policy, a portion of revenue for the *Niobe*, *Odyssey Vision*, *Odyssey Cinema*, and *Vdrive* systems is recognized upon delivery, provided that title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. Revenue for *Niobe*, *Odyssey Vision Standard HD*, *Odyssey Vision Quad*, *Odyssey Enterprise Cinema*, and *Vdrive* systems is recognized upon delivery due to the fact that third parties became qualified to perform installations. Revenue is recognized for other types of *Odyssey* systems upon completion of installation, since there are no qualified third party installers. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since these arrangements do not include an installation element or right of return privileges. The Company does not recognize revenue in situations in which inventory remains at a Stereotaxis warehouse or in situations in which title and risk of loss have not transferred to the customer. However, the Company may deliver systems to a non-hospital site at the customer's request as outlined in the terms and conditions of the sales agreement, in which case the Company evaluates whether the substance of the transaction meets the delivery and performance requirements for revenue recognition under bill and hold guidance. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue.

Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multiple-deliverable arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and establish an appropriate reserve for returns. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimus effect on revenue recognized in the period. We believe that the estimate is not likely to change significantly in the future.

Costs of systems revenue include direct product costs, installation labor and other costs, estimated warranty costs, and initial training and product maintenance costs. These costs are recorded at the time of sale. Costs of disposable revenue include direct product costs and estimated warranty costs and are recorded at the time of sale. Cost of revenue from services and license fees are recorded when incurred.

### **Results of Operations**

#### *Comparison of the Three Months Ended March 31, 2013 and 2012*

**Revenue.** Revenue decreased from \$12.3 million for the three months ended March 31, 2012 to \$8.4 million for the three months ended March 31, 2013, a decrease of approximately 32%. Revenue from the sale of systems decreased from \$5.2 million to \$2.2 million, a decrease of approximately 57%. We recognized revenue on one *Niobe* system, a total of \$0.5 million for *Niobe* ES upgrades, a total of \$0.7 million for *Odyssey* and *Odyssey Cinema* systems, and a total of \$0.1 million for *Vdrive* systems during the 2013 period, versus two *Niobe* systems, a total of \$1.4 million for *Niobe* ES upgrades, a total of \$2.0 million for *Odyssey* and *Odyssey Cinema* systems, and a total of \$0.3 million for *Vdrive* systems during the 2012 period. Revenue from sales of disposable interventional devices, service and accessories decreased to \$6.2 million for the three months ended March 31, 2013 from \$7.1 million for the three months ended March 31, 2012, a decrease of approximately 13%. The decrease was attributable to lower disposable sales volume.

**Cost of Revenue.** Cost of revenue decreased from \$3.8 million for the three months ended March 31, 2012 to \$2.2 million for the three months ended March 31, 2013, a decrease of approximately 42%. Cost of revenue for systems sold decreased from \$2.3 million for the three months

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

ended March 31, 2012 to \$1.2 million for the three months ended March 31, 2013, a decrease of approximately 49%. This decrease was primarily due decreased system sales. Cost of revenue for disposables, service and accessories decreased from \$1.4 million for the three months ended March 31, 2012 to \$1.0 million for the three months ended March 31, 2013, a decrease of approximately 29%. The decrease was primarily due to decreased disposable sales. As a percentage of our total revenue, overall gross margin increased to 74% for the three months ended March 31, 2013 from 69% for the three months ended March 31, 2012 due to a shift in mix from system revenue to disposable, service and accessory revenue. Gross margin for systems was 46% for the three months ended March 31, 2013 compared to 55% for the three months ended March 31, 2012. The decrease was primarily related to lower gross margin on *Odyssey* systems in the current year. Gross margin for disposables, service and accessories was 84% for the current quarter compared to 80% for the three months ended March 31, 2012. The increase is due to higher margins on service in the current year period due to few ES upgrades provided in exchange for extended service contracts.

*Research and Development Expenses.* Research and development expenses decreased from \$2.8 million for the three months ended March 31, 2012 to \$1.5 million for the three months ended March 31, 2013, a decrease of approximately 46%. The decrease is primarily due to reduced headcount expenses and a reduction in consulting, contract research, and materials expenses as part of the Company's efforts to reduce operating expenses.

**Table of Contents**

*Sales and Marketing Expenses.* Sales and marketing expenses decreased from \$6.0 million for the three months ended March 31, 2012 to \$4.9 million for the three months ended March 31, 2013, a decrease of approximately 19%. The decrease was due to reduced headcount expenses and a reduction in marketing expenses as part of the Company's efforts to reduce operating expenses.

*General and Administrative Expenses.* General and administrative expenses include regulatory, clinical, finance, information systems, legal, general management and training expenses. General and administrative expenses decreased to \$3.4 million from \$3.9 million for the three months ended March 31, 2013 and 2012, respectively, a decrease of approximately 12%. The decrease was primarily due to reduced headcount expenses, partially offset by foreign currency effects and increases in consulting expenses.

*Other Income (Expense).* Other income (expense) represents the change in market value of certain warrants classified as a derivative and recorded as a current liability under general accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity's own stock.

*Interest Expense.* Interest expense increased to \$1.9 million for the three months ended March 31, 2013 from \$1.5 million for the three months ended March 31, 2012, due primarily to noncash amortization of the discount on the subordinated convertible debentures.

**Liquidity and Capital Resources**

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents. At March 31, 2013 we had \$9.6 million of cash and equivalents. We had a working capital deficit of approximately \$6.0 and \$5.7 million as of March 31, 2013 and December 31, 2012, respectively. The decrease in working capital is due principally to the \$4.9 million net loss for the first three months of 2013 partially offset by increases in cash from additional borrowings of long term debt.

The following table summarizes our cash flow by operating, investing and financing activities for the three months ended March 31, 2013 and 2012 (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Cash flow used in operating activities	\$ (1,150)	\$ (4,219)
Cash flow used in investing activities	0	(82)
Cash flow provided by financing activities	2,932	815

*Net cash used in operating activities.* We used approximately \$1.1 million and \$4.2 million of cash for operating activities during the three months ended March 31, 2013 and 2012, respectively. This decrease was primarily driven by a decrease in the net loss of \$0.9 million and improvements in working capital of \$9.4 million.

*Net cash used in investing activities.* There were no purchases of equipment for the three month period ended March 31, 2013 compared to \$0.1 million of purchases for the three month period ended March 31, 2012.

*Net cash provided by financing activities.* We borrowed approximately \$2.9 million of cash for the three month period ended March 31, 2013 compared to the \$0.8 million borrowed for the three month period ended March 31, 2012. This increase in cash borrowed was primarily driven by the proceeds received from the Healthcare Royalty Partners II, L.P. ( Healthcare Royalty Partners ), formerly Cowen Healthcare Royalty Partners II, L.P., debt.

We expect to have negative cash flow from operations throughout 2013. We also expect to continue the development and commercialization of our existing products and, to a lesser extent, our research and development programs and the advancement of new products into clinical development. We expect that our 2013 sales and marketing, research and development, and general and administrative expenses will remain consistent with 2012.

We will be required to raise capital or pursue other financing strategies to continue our operations. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with cash resources primarily generated from the proceeds of our past and future public offerings, private sales of our equity securities and working capital and equipment financing loans. In the future, we may finance future cash needs through the sale of other equity securities or non-core assets, strategic collaboration agreements, debt financings or through distribution rights. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors



## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

outside of our control.

Our existing cash, cash equivalents and borrowing facilities will not be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months, which will require us to obtain additional financing before that time. We cannot assure that such additional financing will be available on a timely basis on terms acceptable to us or at all, or that such financing will not be dilutive to our stockholders. If adequate funds are not available to us, we could be required to delay development or commercialization of new products, to license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize ourselves or to reduce the sales, marketing, customer support or other resources devoted to our products, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, we could be required to cease operations.

---

## **Table of Contents**

### *Borrowing facilities*

As of March 31, 2013, our borrowing facilities were comprised of subordinated convertible debentures, a revolving line of credit and a term note maintained with our primary lender, Silicon Valley Bank, as well as a term note maintained with Healthcare Royalty Partners.

The revolving line of credit and the Company's term notes (collectively, the *Credit Agreements*) are secured by substantially all of the Company's assets. The Company is also required under the Credit Agreements to maintain its primary operating account and the majority of its cash and investment balances in accounts with the primary lender.

In September 2011, the Company amended its agreement with its primary lender. The amendment reduced the availability amount of all credit extensions, other than the term loan, from \$30 million to \$20 million, and modified the interest rate applicable to the term loan from the lender's prime rate plus 3.5% to the lender's prime rate plus 5.5%.

On November 30, 2011, the Company entered into a Second Amended and Restated Loan and Security Agreement with its primary lender (*Amended Loan Agreement*). Under the Amended Loan Agreement, the Company agreed to revised tangible net worth and liquidity ratio covenants. Further, certain intellectual property assets of the Company were added to the collateral which secures repayment of the loan. Finally, the Amended Loan Agreement permits the Company to repay Cowen Healthcare Royalty Partners under the Agreement with the royalties due to the Company under the Biosense Agreement (the *Biosense Agreement*), as described below.

On March 30, 2012, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from March 31, 2012 to April 30, 2012 and reduced the Company's borrowing availability by \$3,333,333. The Company also extended until April 30, 2012 the \$10 million guarantees from stockholders who at the time were affiliates of two members of our board of directors (the *Lenders*) and considered to be related parties. As a result of this extension, the Company issued the Lenders warrants to purchase 75,735 shares of common stock at \$6.60 per share.

On May 1, 2012, the Company and its primary lender entered into an agreement in which the lender extended the maturity of the revolving line of credit from April 30, 2012 to May 15, 2012. The Company also amended its agreement with the Lenders to extend the \$10 million loan guarantee through May 15, 2012. The Company granted warrants to purchase an aggregate of 60,976 shares of Common Stock in exchange for the extension of the guarantee.

On May 10, 2012, upon closing of financing transactions for gross proceeds of \$18.5 million, the Company entered into the Third Loan Modification Agreement with its primary lender. The amendment extended the revolving credit facility maturity to March 31, 2013 and revised the financial covenants. Additionally, the revolving line of credit was decreased from \$20 million to \$13 million. The reduction was as a result of the pay down of \$7 million of the guarantees provided by the Lenders.

On March 29, 2013, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from March 31, 2013 to June 30, 2013. The Company also extended until June 30, 2013 the \$3 million guarantee by the Lenders. As a result of this extension, the Company issued the Lenders warrants to purchase 113,636 shares of common stock at \$1.98 per share.

As of March 31, 2013, we had an outstanding balance under our term loan of \$3.0 million. In addition, we had \$8.8 million outstanding under the revolving line of credit and had an unused line of approximately \$4.2 million with current borrowing capacity of \$8.9 million, including amounts already drawn. As such, the Company had the ability to borrow an additional \$0.1 million under the revolving line of credit at March 31, 2013. Draws on the line of credit are made based on the borrowing capacity one month in arrears. As of March 31, 2013, the Company was in compliance with all covenants of the bank loan agreement.

### *Term note*

Under the 2010 amendment to the loan agreement, the Company entered into a \$10 million term loan maturing on December 31, 2013, with \$2 million of principal due in 2011 and \$4 million of principal due in each of 2012 and 2013. Interest on the term loan accrued at the rate of prime plus 3.5%. Under the September 2011 amendment of the loan agreement, the interest rate on the term loan was increased to prime plus 5.5%. Under this agreement, the Company provided its primary lender with warrants to purchase 11,111 shares of common stock. The warrants are exercisable at \$36.00 per share, beginning on December 17, 2010 and expiring on December 17, 2015. The fair value of these warrants of \$228,332, calculated using the Black Scholes method, will be deferred and amortized to interest expense ratably over the life of the term loan.

### *Healthcare Royalty Partners Debt*

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

In November 2011, we entered into a loan agreement with Healthcare Royalty Partners. Under the agreement the Company borrowed from Healthcare Royalty Partners \$15 million. The Company was permitted to borrow up to an additional \$5 million in the aggregate based on the achievement by the Company of certain milestones related to *Niobe* system sales in 2012. On August 8, 2012, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* system sales for the nine months ended June 30, 2012. On January 31, 2013, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* system sales for the twelve months ended December 31, 2012. The loan will be repaid through, and secured by, royalties payable to the Company under its Development, Alliance and Supply Agreement with Biosense Webster, Inc. (the Biosense Agreement). The Biosense Agreement relates to the development and distribution of magnetically enabled catheters used with Stereotaxis *Niobe* system in cardiac ablation procedures. Under the terms of the Agreement, Healthcare Royalty Partners will be entitled to receive 100% of all royalties due to the Company under the

---

## **Table of Contents**

Biosense Agreement until the loan is repaid. The loan is a full recourse loan, matures on December 31, 2018, and bears interest at an annual rate of 16% payable quarterly with royalties received under the Biosense Agreement. If the payments received by the Company under the Biosense Agreement are insufficient to pay all amounts of interest due on the loan, then such deficiency will increase the outstanding principal amount on the loan. After the loan obligation is repaid, royalties under the Biosense Agreement will again be paid to the Company. The loan is also secured by certain assets and intellectual property of the Company. The Agreement also contains customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender under the Amended Loans Agreement described above.

### *Subordinated Convertible Debentures*

In May 2012, the Company entered into a securities purchase agreement with certain institutional investors whereby the Company agreed to sell an aggregate of approximately \$8.5 million in aggregate principal amount of unsecured, subordinated, convertible debentures (the *Debentures*), which became convertible into shares of the Company's common stock at a conversion price of \$3.361 per share (or approximately 2.5 million shares in the aggregate), on July 10, 2012, the date that the Company received shareholder approval for the transaction. The purchasers of the Debentures also received six-year warrants to purchase an aggregate of approximately 2.5 million shares of the Company's common stock at an exercise price of \$3.361 per share. The Debentures bear interest at 8% per year and mature on May 7, 2014. In addition, the Company has the ability to issue shares of its common stock in lieu of cash interest payments under certain circumstances, and intends to do so at such time as the Company has registered the shares for resale.

The Company recorded the Debentures on the balance sheet net of the debt discount. The debt discount of \$7.5 million is due to warrants issued in conjunction with the Debentures and the debt conversion features. The fair value of the warrants and derivative liability were \$4.1 million and \$3.5 million, respectively. The debt discount will be amortized over the life of the loan using the effective interest method. Refer to Note 11 for additional discussion of the fair value of the warrants and conversion features.

### *Common Stock*

In May 2012, the Company entered into a Stock and Warrant Purchase Agreement with certain institutional investors whereby it agreed to sell an aggregate of approximately 2.17 million shares of the Company's common stock (the *PIPE Common Stock*) at a price of \$3.361 per share, together with six-year warrants at a price of \$1.25 per share to purchase an aggregate of approximately 2.17 million shares of common stock having an exercise price of \$3.361 per share (the *PIPE Warrants*). Each purchaser received a PIPE Warrant to purchase one share of common stock for every share of PIPE Common Stock purchased.

As described above, on July 10, 2012, the Company effected a one-for-ten Reverse Stock Split of the Company's common stock. All figures within this document have been adjusted to reflect this reverse stock split.

Net proceeds from the sale of the securities were approximately \$9.1 million, after placement agent fees and other offering expenses. The Company used the funds to repay \$7 million of the revolving credit facility guaranteed by the Lenders and plans to use the balance for working capital and general corporate purposes.

### **Off-Balance Sheet Arrangements**

We do not currently have, nor have we ever had, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As a result, we are not materially exposed to any financing, liquidity, market or credit risk that could have arisen if we had engaged in these relationships.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Foreign Exchange Risk***

We operate mainly in the U.S., Europe and Asia and we expect to continue to sell our products both within and outside of the U.S. Although the majority of our revenue and expenses are transacted in U.S. dollars, a portion of our operations are conducted in Euros and to a lesser extent, in other currencies. As such, we have foreign exchange exposure with respect to non-U.S. dollar revenues and expenses as well as cash balances, accounts receivable, accounts payable and other asset and liability balances denominated in non-US dollar currencies. Our international

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

operations are subject to risks typical of international operations, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Future fluctuations in the value of these currencies may affect the price competitiveness of our products. In addition, because we have a relatively long installation cycle for our systems, we will be subject to risk of currency fluctuations between the time we execute a purchase order and the time we deliver the system and collect payments under the order, which could adversely affect our operating margins. As of March 31, 2013 we have not hedged exposures in foreign currencies or entered into any other derivative instruments.

---

## **Table of Contents**

For the three months ended March 31, 2013, sales denominated in foreign currencies were approximately 28% of total revenue and as such, our revenue would have decreased by approximately \$0.2 million if the U.S. dollar exchange rate used would have strengthened by 10%. For the three months ended March 31, 2013, expenses denominated in foreign currencies were approximately 18% of our total expenses and as such, our operating expenses would have decreased by approximately \$0.2 million if the U.S. dollar exchange rate used would have strengthened by 10%. In addition, we have assets and liabilities denominated in foreign currencies. A 10% strengthening of the U.S. dollar exchange rate against all currencies with which we have exposure at March 31, 2013 would have resulted in less than a \$0.1 million decrease in the carrying amounts of those net assets.

### ***Interest Rate Risk***

We have exposure to interest rate risk related to our investment portfolio. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our invested cash without significantly increasing the risk of loss. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term debt instruments. We invest our excess cash primarily in U.S. government securities and marketable debt securities of financial institutions and corporations with strong credit ratings. These instruments generally have maturities of two years or less when acquired. We do not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions. Accordingly, we believe that while the instruments we hold are subject to changes in the financial standing of the issuer of such securities, we are not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive instruments.

We have exposure to market risk related to any investments we might hold. Market liquidity issues might make it impossible for the Company to liquidate its holdings or require that the Company sell the securities at a substantial loss. As of March 31, 2013, the Company did not hold any investments.

We have exposure to interest rate risk related to our borrowings as the interest rates for certain of our outstanding loans are subject to increase should the interest rate increase above a defined percentage. Because certain issuances of our outstanding debt are subject to minimum interest rates ranging from 5.75% to 7.0%, a hypothetical increase in interest rates of 100 basis points would have resulted in less than a \$0.1 million decrease in interest expense for the quarter ended March 31, 2013.

### ***Inflation Risk***

We do not believe that inflation has had a material adverse impact on our business or operating results during the periods covered by this report.

## **ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures:* The Company's management, with the participation of the Company's Interim Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, the Company's Interim Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

*Changes In Internal Control Over Financial Reporting:* The Company's management, with the participation of the Company's Interim Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

As described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, on October 7, 2011, a purported securities class action was filed against the Company and two of the Company's past executive officers in the U.S. District Court for the Eastern District of Missouri by Kevin Pound, a purported shareholder of the Company. On December 29, 2011, the court granted an unopposed motion appointing Local 522 Pension Fund as Lead Plaintiff in the action and granting Lead Plaintiff leave to file an Amended Complaint, which Lead Plaintiff filed on March 19, 2012. The Amended Complaint alleges that, during the period from February 28, 2011 through August 9, 2011, the Company and certain of its officers made materially false and misleading statements regarding the Company's financial condition and future business prospects, in violation of sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The Amended Complaint seeks unspecified damages, costs, attorneys' fees and such other relief as the Court may deem appropriate. On May 18, 2012, the Company filed a motion to dismiss the Amended Complaint. On July 24, 2012, Lead Plaintiff filed its response to the motion to dismiss, and on August 30, 2012, the Company filed its reply brief in support of the motion to dismiss. The Company believes the complaint is without merit and intends to vigorously defend against it. However, litigation is inherently uncertain and it is too early in this proceeding to predict the outcome of this lawsuit or to reasonably estimate possible losses, if any, related thereto. In addition, the Company has obligations, under certain circumstances, to indemnify the individual defendants with respect to claims asserted against them and otherwise to the fullest extent permitted under Delaware law and the Company's bylaws and certificate of incorporation.

---

## Table of Contents

As described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, on December 2, 2011, a purported shareholder derivative action was filed in the U.S. District Court for the Eastern District of Missouri by Carl Zorn, a purported shareholder of the Company, against the directors of the Company and the Company as a nominal defendant. The Complaint in this action alleges that the individual defendants breached their fiduciary duties to the Company, engaged in gross mismanagement and caused waste of corporate assets of the Company by allowing the Company and certain of its officers to make the same allegedly false and misleading statements regarding the Company's financial condition and future business prospects that are at issue in the purported class action. The Complaint seeks unspecified damages, restitution and other equitable relief, as well as costs and attorneys' fees from the named defendants on behalf of the Company. At the request of all parties, on March 22, 2012, the Court entered an order staying the case pending resolution of the motion to dismiss in the securities class action. The Company believes the complaint is without merit and intends to vigorously defend against it. However, litigation is inherently uncertain and it is too early in this proceeding to predict the outcome of this lawsuit or to reasonably estimate possible losses, if any, related thereto. In addition, the Company has obligations, under certain circumstances, to indemnify the individual defendants with respect to claims asserted against them and otherwise to the fullest extent permitted under Delaware law and the Company's bylaws and certificate of incorporation.

Additionally, we are involved from time to time in various lawsuits and claims arising in the normal course of business. Although the outcomes of these lawsuits and claims are uncertain, we do not believe any of them will have a material adverse effect on our business, financial condition or results of operations.

### **ITEM 1A. RISK FACTORS**

The following uncertainties and factors, among others, could affect future performance and cause actual results to differ materially from those expressed or implied by forward looking statements.

**We have recently received a notice from Nasdaq advising that we do not meet the continued listing standards of the Nasdaq Global Market. If we are unable to maintain a listing on a national securities exchange, it could negatively impact the price and liquidity of our common stock and our ability to access the capital markets, and could cause us to be in default under various loan documents.**

Our common stock is currently listed on the Nasdaq Global Market. In order to maintain that listing, we must satisfy minimum financial and other requirements. On January 20, 2012, we received notice from the Nasdaq Listing Qualifications Department that our common stock had not met the \$1.00 per share minimum bid price requirement for 30 consecutive business days and that, if we were unable to demonstrate compliance with this requirement during the applicable grace periods, our common stock would be subject to delisting after that time. Because the closing bid price of our common stock on the Nasdaq Global Market had been below \$1.00 each trading day since December 6, 2011, through July 10, 2012, we implemented the Reverse Stock Split of one-for-ten on July 10 following shareholder approval of that action in order to put our stock in compliance with the minimum bid price requirement. On July 25, 2012, we received notice that we regained compliance with the minimum bid price requirement. In addition, on June 25, 2012, Nasdaq notified us that we did not comply with the rule regarding market value of publicly held shares. On January 9, 2013, we received notification from Nasdaq that we had regained compliance with the minimum market value of publicly held shares requirement.

On March 20, 2013, we received a notification from the Nasdaq Listing Qualifications Department that we are not in compliance with the \$50.0 million in total assets and total revenues requirement for our most recently completed fiscal year or for two of the last three most recently completed fiscal years as required by Nasdaq Listing Rule 5450(b)(3)(A). In addition, the Nasdaq letter stated that we do not comply with an alternative requirement of Listing Rule 5450(b) for continued listing on the Nasdaq Global Market because our stockholders' equity is less than \$10.0 million and the market value of our listed securities is less than \$50.0 million. In the notice, Nasdaq stated that we may provide a plan to regain compliance with the continued listing requirements of the Nasdaq Global Market by May 6, 2013. If Nasdaq accepts the plan, it can grant an extension of up to 180 calendar days from the date of the letter (that is, through September 16, 2013) to evidence compliance. We submitted a compliance plan with Nasdaq on May 6, 2013.

There is no assurance that Nasdaq will approve our compliance plan and we are not currently eligible to transfer our listing to the Nasdaq Capital Market since we do not satisfy all applicable requirements for continued listing on that market at this time. Even if we are granted additional time to regain compliance with the Nasdaq Global Market listing standards, there can be no assurance that we will be able to evidence compliance by September 16, 2013. If the Nasdaq Staff does not accept our compliance plan, or if they accept our compliance plan and we are not able to achieve compliance by the established deadline, then the Nasdaq Staff would issue a delisting letter. We would at that point be afforded the right to a hearing before an independent Nasdaq Listing Qualifications Panel (the "Panel"). If we requested a hearing, the delisting action would be stayed until the conclusion of the hearing process and the expiration of any extension granted by the Panel. At that hearing, we could seek a further extension on the Nasdaq Global Market or a transfer to the Nasdaq Capital Market, pending our achievement of compliance with the applicable requirements for continued listing.



## Edgar Filing: Stereotaxis, Inc. - Form 10-Q

In addition, on April 17, 2013, Nasdaq notified us that we no longer comply with the market value of publicly held shares requirement for continued listing on the Nasdaq Global Market, as we did not maintain a publicly held market value of \$15 million for the 30 consecutive business days prior to the date of the letter. In accordance with applicable Nasdaq rules, we are being provided 180 calendar days, or until October 14, 2013, to regain compliance with that rule. However, we may be unable to do so in that time frame, or at all. If the Panel permits us to transfer to the Nasdaq Capital Market as described above, the market value of publicly held shares requirement applicable to the Nasdaq Capital Market is \$1.0 million instead of \$15 million.

If our common stock is delisted from the Nasdaq Stock Market, we anticipate that our common stock will be immediately eligible for quotation on the OTCQB Market. Any delisting could adversely affect the market liquidity of our common stock, adversely affect our ability to obtain financing for the continuation of our operations and harm our business. Moreover, if we are not listed on an eligible market, under the terms of our convertible debt, we would be in default under the terms of our debenture, and because of cross-default provisions, we would be in default under our other principal debt obligations. In addition, receipt of a deficiency notice from Nasdaq with respect to our ongoing compliance with the Nasdaq Global Market continued listing standards could also result in other negative implications, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest and fewer business development opportunities. Any of such developments as a result of the foregoing could impair the value of your investment.

**Table of Contents**

Additional Risk Factors are discussed in our Annual Report on Form 10-K for the year ended December 31, 2012.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**  
None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**  
None.

**ITEM 4. [RESERVED]**  
None.

**ITEM 5. OTHER INFORMATION**  
None.

**ITEM 6. EXHIBITS**  
Exhibits: See Exhibit Index herein

**Table of Contents**

**STEREOTAXIS, INC.**

**SIGNATURES**

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

STEREOTAXIS, INC.

(Registrant)

Date: May 14, 2013

By: **/s/ William C. Mills III  
William C. Mills III,**

**Interim Chief Executive Officer**

Date: May 14, 2013

By: **/s/ Martin C. Stammer  
Martin C. Stammer,**

**Chief Financial Officer**

**Table of Contents**

**EXHIBIT INDEX**

<b>Number</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-Q (file No. 000-50884) for the fiscal quarter ended September 30, 2004.
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (File No. 000-50884) filed on July 10, 2012.
3.3	Restated Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2004.
10.1	Fifth Loan Modification Agreement (Domestic), dated March 29, 2013, between Silicon Valley Bank, the Company, and Stereotaxis International, Inc. incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K (File No. 000-50884) filed on April 1, 2013.
10.2	Export-Import Bank Fourth Loan Modification and Waiver Agreement, dated March 29, 2013, between Silicon Valley Bank, the Company and Stereotaxis International, Inc. incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K (File No. 000-50884) filed on April 1, 2013.
10.3	Seventh Amendment to Note and Warrant Purchase Agreement, dated March 29, 2013, among affiliated entities of Sanderling Venture Partners, Alafi Capital Company and the Company, incorporated by reference to Exhibit 10.3 of Registrant's Current Report on Form 8-K (File No. 000-50884) filed on April 1, 2013.
31.1	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
31.2	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).
32.1	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
32.2	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.