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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36159

**STEREOTAXIS, INC.**

(Exact name of registrant as specified in its charter)

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 Registration 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of outstanding shares of the registrant's common stock on October 31, 2017 was 22,799,966.

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[Table of Contents](#)

STEREOTAXIS, INC.  
INDEX TO FORM 10-Q

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

[Table of Contents](#)

## ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.  
BALANCE SHEETS

	September 30, 2017 (Unaudited)	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,487,066	\$ 8,501,392
Accounts receivable, net of allowance of \$494,531 and \$379,817 in 2017 and 2016, respectively	4,048,086	4,665,959
Inventories	4,605,526	5,381,103
Prepaid expenses and other current assets	926,929	855,295
Total current assets	14,067,607	19,403,749
Property and equipment, net	724,761	1,086,244
Intangible assets, net	287,078	436,569
Other assets	46,346	39,241
Total assets	<u>\$ 15,125,792</u>	<u>\$ 20,965,803</u>
<b>Liabilities and stockholders' deficit</b>		
Current liabilities:		
Accounts payable	\$ 1,733,142	\$ 2,623,010
Accrued liabilities	3,511,638	4,491,164
Deferred revenue	6,058,646	8,751,336
Warrants	20,816,486	19,787,007
Total current liabilities	32,119,912	35,652,517
Long-term deferred revenue	717,244	522,329
Other liabilities	497,314	320,409
Total liabilities	33,334,470	36,495,255
Convertible Preferred stock:		
Convertible Preferred stock, par value \$0.001; 10,000,000 shares authorized, 23,900 shares outstanding at 2017 and 2016	5,960,475	5,960,475
Stockholders' deficit:		
Common stock, par value \$0.001; 300,000,000 shares authorized, 22,787,136 and 22,063,582 shares issued at 2017 and 2016, respectively	22,787	22,064
Additional paid in capital	450,594,110	449,939,406
Treasury stock, 4,015 shares at 2017 and 2016	(205,999)	(205,999)
Accumulated deficit	(474,580,051)	(471,245,398)
Total stockholders' deficit	(24,169,153)	(21,489,927)
Total liabilities and stockholders' deficit	<u>\$ 15,125,792</u>	<u>\$ 20,965,803</u>

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Revenue:</b>				
Systems	\$ 1,597,537	\$ 1,954,859	\$ 3,644,871	\$ 4,965,855
Disposables, service and accessories	6,546,198	6,378,608	19,943,562	19,890,240
Total revenue	8,143,735	8,333,467	23,588,433	24,856,095
<b>Cost of revenue:</b>				
Systems	888,800	1,245,330	2,029,760	2,724,326
Disposables, service and accessories	1,032,569	1,008,662	3,350,480	2,805,550
Total cost of revenue	1,921,369	2,253,992	5,380,240	5,529,876
Gross margin	6,222,366	6,079,475	18,208,193	19,326,219
<b>Operating expenses:</b>				
Research and development	1,159,617	1,295,130	3,599,314	4,189,596
Sales and marketing	2,965,479	3,396,989	10,063,698	11,502,808
General and administrative	1,929,473	2,561,513	6,715,019	7,934,350
Total operating expenses	6,054,569	7,253,632	20,378,031	23,626,754
Operating income (loss)	167,797	(1,174,157)	(2,169,838)	(4,300,535)
Other expense	(4,459,042)	(9,852,514)	(1,029,479)	(9,685,850)
Interest income	7	—	15	362
Interest expense	(43,084)	(818,738)	(135,351)	(2,466,803)
Gain on extinguishment of debt	—	5,632,171	—	5,632,171
Net loss	\$ (4,334,322)	\$ (6,213,238)	\$ (3,334,653)	\$ (10,820,655)
Deemed dividend on convertible preferred stock	—	(6,137,476)	—	(6,137,476)
Cumulative dividend on convertible preferred stock	(337,963)	—	(1,070,812)	—
Net loss attributable to common stockholders	<u>\$ (4,672,285)</u>	<u>\$ (12,350,714)</u>	<u>\$ (4,405,465)</u>	<u>\$ (16,958,131)</u>
<b>Net loss per share attributable to common stockholders:</b>				
Basic	\$ (0.21)	\$ (0.56)	\$ (0.20)	\$ (0.78)
Diluted	<u>\$ (0.21)</u>	<u>\$ (0.56)</u>	<u>\$ (0.20)</u>	<u>\$ (0.78)</u>
<b>Weighted average number of common shares and equivalents:</b>				
Basic	22,750,405	21,869,177	22,551,496	21,758,529
Diluted	<u>22,750,405</u>	<u>21,869,177</u>	<u>22,551,496</u>	<u>21,758,529</u>

See accompanying notes.

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

	<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Net loss	\$ (3,334,653)	\$ (10,820,655)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	412,793	276,618
Amortization of intangibles	149,491	149,490
Amortization of deferred finance costs	74,793	163,034
Share-based compensation	625,854	822,785
Gain on debt extinguishment	—	(5,632,171)
Noncash interest	—	485,857
Loss on asset disposal	20,772	—
Adjustment of warrants	1,029,479	9,685,850
Changes in operating assets and liabilities:		
Accounts receivable	617,873	1,494,116
Inventories	775,577	(872,083)
Prepaid expenses and other current assets	(46,427)	(81,867)
Other assets	(7,105)	(11,282)
Accounts payable	(889,868)	1,018,677
Accrued liabilities	(979,526)	(834,799)
Deferred revenue	(2,497,775)	(2,387,250)
Other liabilities	176,905	112,610
Net cash used in operating activities	<u>(3,871,817)</u>	<u>(6,431,070)</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(72,082)	—
Net cash used in investing activities	<u>(72,082)</u>	<u>—</u>
<b>Cash flows from financing activities</b>		
Payments of deferred financing costs	(100,000)	(100,000)
Proceeds from revolving line of credit	—	7,650,000
Payments of revolving line of credit	—	(7,650,000)
Payments of Healthcare Royalty Partners debt	—	(13,020,780)
Proceeds from issuance of stock, net of issuance costs	29,573	23,203,051
Net cash provided by (used in) financing activities	<u>(70,427)</u>	<u>10,082,271</u>
Net increase (decrease) in cash and cash equivalents	<u>(4,014,326)</u>	<u>3,651,201</u>
Cash and cash equivalents at beginning of period	<u>8,501,392</u>	<u>5,593,582</u>
Cash and cash equivalents at end of period	<u>\$ 4,487,066</u>	<u>\$ 9,244,783</u>

See accompanying notes.

**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. Epoch®, Niobe®, Odyssey®, Odyssey Cinema™, Vdrive®, Vdrive Duo™, V-CAS™, V-Loop™, V-Sono™, V-CAS Deflect™, QuikCAS™, Cardiodrive®, and Pegasus™ are trademarks of Stereotaxis, Inc. All other trademarks that appear in this report are the property of their respective owners.

**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 Remote Magnetic Navigation System (“*Niobe* ES system”), *Odyssey* Information Management Solution (“*Odyssey* Solution”), and the *Vdrive* Robotic Navigation System (“*Vdrive* system”), and related devices.

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. As of September 30, 2017, the Company had an installed base of 127 *Niobe* ES systems.

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 *Odyssey Cinema*, 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, such as the *Niobe* system, *Odyssey* Solution, *Cardiodrive*, and various disposable interventional devices have received regulatory clearance in the U.S., Europe, Canada, China, Japan and various other countries. We have received the regulatory clearance, licensing and/or CE Mark approvals that allow us to market the *Vdrive* and *Vdrive Duo* systems with the *V-CAS*, *V-Loop* and *V-Sono* devices in the U.S., Canada and European Union. The *V-CAS Deflect* catheter advancement system has been CE Marked for sale in the European Union.

We have alliances with each of Biosense Webster, Inc., Philips Medical Systems, and Siemens AG Medical Solutions, through which we integrate our *Niobe* system with their respective digital imaging and 3D catheter location sensing technology, as well as disposable interventional devices. The maintenance of such alliances, or the establishment of equivalent alternatives, is critical to our commercialization efforts. The commercial availability of currently compatible digital imaging fluoroscopy systems is unlikely to continue indefinitely and efforts are being made to ensure the availability of integrated next generation systems and/or equivalent alternatives; however, we cannot assure as to the timeline of the ongoing availability of such compatible systems or our ability to obtain equivalent alternatives on competitive terms or at all.

**Going Concern, Liquidity and Management’s Plan**

The Company believes the cash on hand at September 30, 2017 and expected borrowing capacity available will be sufficient to meet its obligations as they become due in the ordinary course of business for at least 12 months following the date these financial statements are issued. This evaluation assumes the Company is able to renew and has the ability to borrow under its asset based revolving credit facility which matures on March 31, 2018. The Company expects to be able to renew this facility at similar terms, as it has successfully done so in the past. There is no assurance that the revolving credit facility will be renewed in a timely manner, in amounts that are sufficient to meet the Company’s obligations as they become due, or on terms acceptable to the Company, or at all.

The Company has sustained operating losses throughout its corporate history and expects that its 2017 expenses will exceed its 2017 gross margin. The Company expects to continue to incur operating losses and negative cash flows until revenues reach a level sufficient to support ongoing operations or expense reductions are in place. Accordingly, management has analyzed its planned operations to evaluate the Company's ability to continue as a going concern. The Company's liquidity needs will be largely determined by the success of clinical adoption within the installed base of *Niobe* systems as well as by new placements of capital systems. The Company's plans for improving its liquidity conditions, which are probable of effectively being implemented, primarily include its ability to control the timing and spending of its operating expenses and raising additional funds through capital transactions. Specifically, cash outflows for operating expenses could be reduced or delayed by transitioning certain cash payments to stock payments, by reducing project expenses, or by reducing headcount. The Company also may consider raising cash through capital transactions, which could include either debt or equity financing.

## **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 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 nine month period ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017 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, 2016 as filed with the Securities and Exchange Commission (SEC) on March 16, 2017.

### ***Financial Instruments***

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and debt. The carrying value of such amounts reported at the applicable balance sheet dates approximates fair value.

The Company measures certain financial assets and liabilities, including warrants, at fair value on a recurring basis. 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.

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

The Company accounts for revenue using Accounting Standards Codification Topic 605-25, *Multiple-Element Arrangements* ("ASC 605-25").

ASC 605-25 permits management to estimate the selling price of undelivered components of a bundled sale for which it is unable to establish vendor-specific objective evidence ("VSOE") or third-party evidence ("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 Company believes that the 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, a portion of revenue for *Niobe* systems, *Vdrive* systems, and certain *Odyssey* 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. 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 minimis 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. Restricted shares granted to employees are valued at the fair market value at the date of grant. The Company amortizes the fair market value to expense over the service period. 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.

**Net Earnings (Loss) per Common Share (“EPS”)**

Basic net income (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the number of common shares outstanding during the period. In periods where there is net income, we apply the two-class method to calculate basic and diluted net income (loss) per share of common stock, as our Convertible Preferred Stock is a participating security. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common stockholders. In periods where there is a net loss, the two-class method of computing earnings per share does not apply as our Convertible Preferred Stock does not contractually participate in our losses. We compute diluted net income (loss) per common share using net income (loss) as the “control number” in determining whether potential common shares are dilutive, after giving consideration to all potentially dilutive common shares, including stock options, warrants, unvested restricted stock units outstanding during the period and potential issuance of stock upon the conversion of our Convertible Preferred Stock issued and outstanding during the period, except where the effect of such securities would be antidilutive.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net loss	\$ (4,334,322)	\$ (6,213,238)	\$ (3,334,653)	\$ (10,820,655)
Deemed dividend on convertible preferred stock	—	(6,137,476)	—	(6,137,476)
Cumulative dividend on convertible preferred stock	(337,963)	—	(1,070,812)	—
Net loss attributable to common stockholders	<u>\$ (4,672,285)</u>	<u>\$ (12,350,714)</u>	<u>\$ (4,405,465)</u>	<u>\$ (16,958,131)</u>
Weighted average number of common shares and equivalents:	22,750,405	21,869,177	22,551,496	21,758,529
Basic EPS	\$ (0.21)	\$ (0.56)	\$ (0.20)	\$ (0.78)
Diluted EPS	\$ (0.21)	\$ (0.56)	\$ (0.20)	\$ (0.78)

The Company did not include any portion of unearned restricted stock units, 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 Company had no unearned restricted shares during any of the periods presented.

As of September 30, 2017, the Company had 413,301 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$9.04 per share, 38,779,119 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$0.82 per share, 38,981,429 shares of common stock issuable upon the conversion of Series A Convertible Preferred Stock and accumulated dividends, and 687,238 shares of unvested restricted share units.

**Recently Issued Accounting Pronouncements**

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU” or “Update”) No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” This amendment is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeitures, and classification on the statement of cash flows. This update was effective for fiscal years beginning after December 15, 2016 (January 1, 2017 for the Company) and interim periods within those fiscal years, with earlier application permitted. The Company adopted this guidance in the first quarter of 2017. The adoption of ASU 2016-09 did not materially impact the Company’s consolidated financial position, results of operations, equity, or cash flows.



## [Table of Contents](#)

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” regarding the subsequent measurement of inventory as part of its Simplification Initiative. This standard was effective for public companies for fiscal years beginning after December 15, 2016 (January 1, 2017 for the Company), including interim periods within those fiscal years. This Update should be applied prospectively, and early application is permitted as of the beginning of an interim or annual reporting period. The Company adopted this accounting standard update in the first quarter of 2017. The adoption of ASU 2015-11 did not materially impact the company’s results of operations, financial conditions, cash flows, or financial statement presentation.

In February 2016, the FASB issued ASU 2016-02, “Leases (ASC 842),” which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective for interim and annual periods beginning after December 31, 2018 (January 1, 2019 for the Company), with early adoption permitted. The Company is in the process of evaluating the impact of this accounting standard update.

In August 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-15, to communicate amendments to FASB Account Standards Codification Subtopic 205-40, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The ASU requires management to evaluate relevant conditions, events, and certain management plans that are known or reasonably knowable as of the evaluation date when determining whether substantial doubt about an entity’s ability to continue as a going concern exists. Management will be required to make this evaluation for both annual and interim reporting periods. Management will have to make certain disclosures if it concludes that substantial doubt exists or when it plans to alleviate substantial doubt about the entity’s ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016 and for interim reporting periods starting in the first quarter of 2017 (December 31, 2016 for the Company). Early adoption is permitted. The Company adopted this accounting standard update effective December 31, 2016 and provided the relevant disclosures in Note 1.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers,” which converges the FASB’s and the International Accounting Standards Board’s current standards on revenue recognition. The standard provides companies with a single model to use in accounting for revenue arising from contracts with customers and supersedes current revenue guidance. The standard is effective for annual and interim periods beginning after December 15, 2017 (January 1, 2018 for the Company). The standard permits companies to either apply the adoption to all periods presented, or apply the requirements in the year of adoption through a cumulative adjustment. The Company will adopt ASU 2014-09 during the first quarter of 2018 using the modified retrospective method that will result in a cumulative effect adjustment as of the date of adoption. Upon initial evaluation, management does not anticipate a significant change to its existing units of accounting which include systems, disposables and other accessories, royalty, and other recurring revenue. The Company continues to evaluate other areas of the standard and its effect on the Company’s financial statements.

## [Table of Contents](#)

### 3. Inventories

Inventories consist of the following:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Raw materials	\$ 2,464,842	\$ 2,397,430
Work in process	332,057	341,125
Finished goods	2,193,838	2,915,162
Reserve for obsolescence	(385,211)	(272,614)
Total inventory	<u>\$ 4,605,526</u>	<u>\$ 5,381,103</u>

### 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Prepaid expenses	\$ 420,275	\$ 575,886
Deferred financing costs	49,863	24,658
Deposits	497,798	293,992
Deferred cost of revenue	5,339	—
Total prepaid expenses and other assets	973,275	894,536
Less: Noncurrent prepaid expenses and other assets	(46,346)	(39,241)
Total current prepaid expenses and other assets	<u>\$ 926,929</u>	<u>\$ 855,295</u>

### 5. Property and Equipment

Property and equipment consist of the following:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Equipment	\$ 7,326,372	\$ 8,397,528
Equipment held for lease	—	303,412
Leasehold improvements	2,592,338	2,719,860
	9,918,710	11,420,800
Less: Accumulated depreciation	(9,193,949)	(10,334,556)
Net property and equipment	<u>\$ 724,761</u>	<u>\$ 1,086,244</u>

### 6. Intangible Assets

As of September 30, 2017, the Company had total intangible assets of \$3,221,069. Accumulated amortization at September 30, 2017, was \$2,933,991.

## 7. Accrued Liabilities

Accrued liabilities consist of the following:

	September 30, 2017	December 31, 2016
Accrued salaries, bonus, and benefits	\$ 1,891,086	\$ 2,452,183
Accrued rent	523,306	965,412
Accrued licenses and maintenance fees	579,825	561,450
Accrued warranties	174,947	222,845
Accrued taxes	241,688	219,017
Accrued professional services	239,972	180,450
Other	358,128	210,216
Total accrued liabilities	4,008,952	4,811,573
Less: Long term accrued liabilities	(497,314)	(320,409)
Total current accrued liabilities	<u>\$ 3,511,638</u>	<u>\$ 4,491,164</u>

Our primary company facilities are located in St. Louis, Missouri where we currently lease approximately 52,000 square feet of office and 12,000 square feet of demonstration and assembly space. In the third quarter of 2013, the Company modified the existing lease agreement to terminate approximately 13,000 square feet of unimproved space. The costs associated with the termination were \$515,138 and were accrued as a rent liability as of September 30, 2013. As of September 30, 2017, the remaining accrued costs associated with the termination were \$116,992.

In the fourth quarter of 2015, the Company entered an agreement to sublease 3,152 square feet of the first floor office space through December 31, 2018. In July 2016, the Company and the subtenant mutually agreed to an early termination of the sublease, effective July 31, 2016.

In August 2016 the Company entered into an agreement to sublease approximately 11,000 square feet of office space through December 31, 2018. The costs associated with the sublease were \$40,972 and were accrued as a rent liability as of August 31, 2016. In January 2017, as part of the sublease agreement, the Company subleased an additional 16,000 square feet through December 31, 2018. The costs associated with the January sublease were \$28,208. As of September 30, 2017, the remaining accrued costs associated with the termination were \$32,471.

## 8. Deferred Revenue

Deferred revenue consists of the following:

	September 30, 2017	December 31, 2016
Product shipped, revenue deferred	\$ 832,486	\$ 549,709
Customer deposits	—	2,910,000
Deferred service and license fees	5,943,404	5,813,956
Total deferred revenue	6,775,890	9,273,665
Less: Long-term deferred revenue	(717,244)	(522,329)
Total current deferred revenue	<u>\$ 6,058,646</u>	<u>\$ 8,751,336</u>

## 9. Long-Term Debt and Credit Facilities

### Revolving Line of Credit

The Company has had a working capital line of credit with its primary lender, Silicon Valley Bank, since 2004. The revolving line of credit is secured by substantially all of the Company's assets. As of September 30, 2017, the maximum available under the line was \$10.0 million subject to the value of certain collateralized assets. The Company is required under the revolving line of credit to maintain its primary operating account and the majority of its cash and investment balances in accounts with its primary lender. The facility was amended on March 27, 2015, extending the maturity date to March 31, 2018 and on May 10, 2016, the Company and the primary lender agreed to modify certain financial covenants. The amended agreement requires the Company to maintain a liquidity ratio greater than 1.50:1.00, excluding certain short term advances from the calculation, and a minimum tangible net worth of not less than (no worse than) negative \$24.0 million for the quarters ended June 30, 2016, September 30, 2016, December 31, 2016, March 31, 2017, June 30, 2017, and September 30, 2017; and not less than (no worse than) negative \$24.5 million for the quarters ended December 31, 2017 and March 31, 2018. As of September 30, 2017, the Company is in compliance with its loan covenants.

As of September 30, 2017, the Company had no outstanding balance 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 September 30, 2017, the Company had a borrowing capacity of \$3.0 million based on the Company's collateralized assets. The Company's total liquidity as of September 30, 2017, was \$7.5 million which included cash and cash equivalents of \$4.5 million.

On November 7, 2017, the Company entered into a Third Amended and Restated Loan Agreement with Silicon Valley Bank ("Modification Agreement"), amending the terms of the Second Amended and Restated Loan and Security Agreement (Domestic) dated November 30, 2011 (as amended and as in effect immediately prior to the effectiveness of the Modification Agreement). The Modification Agreement provided for, among other terms and provisions, an adjustment in the maximum availability under the Company's revolving line of credit from \$10.0 million to \$5.0 million with the pro-rata reduction in related loan costs, as well as a reduction in the interest rate floor from 7.0% to 5.75%. This change should have no impact on the Company's typical borrowing capacity.

### Healthcare Royalty Partners Debt

In November 2011, the Company entered into a loan agreement with Healthcare Royalty Partners. Under the agreement the Company borrowed \$15 million from Healthcare Royalty Partners. 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* ES 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* ES 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* ES system sales for the twelve months ended December 31, 2012. The loan was to 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* ES system in cardiac ablation procedures. Under the terms of the agreement, Healthcare Royalty Partners was entitled to receive 100% of all royalties due to the Company under the Biosense Agreement until the loan was repaid. The loan was a full recourse loan, scheduled to mature on December 31, 2018, and included 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 were insufficient to pay all amounts of interest due on the loan, then such deficiency would have increased the outstanding principal amount on the loan. The loan was also secured by certain assets and intellectual property of the Company. The agreement also contained customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender.

## [Table of Contents](#)

In September 2016, the Company extinguished the remainder of the debt of \$18.1 million, net of deferred financing costs of approximately \$0.3 million, as well as accrued interest of \$0.5 million for \$13.0 million based upon an agreement entered into with Healthcare Royalty Partners. Following the repayment of the loan obligation, the royalties under the Biosense Agreement are now paid to the Company. As a result of the debt extinguishment, the Company recognized a net gain of \$5.6 million in 2016.

### **10. Convertible Preferred Stock and Stockholders' Equity**

The holders of common stock are entitled to one vote for each share held and to receive dividends whenever funds are legally available and when declared by the Board of Directors subject to the rights of holders of all classes of stock having priority rights as dividends and the conditions of the revolving line of credit agreement. No dividends have been declared or paid as of September 30, 2017.

#### **Convertible Preferred Stock and Warrants**

On September 26, 2016, the Company entered into a Securities Purchase Agreement with certain institutional and other accredited investors whereby it agreed to sell, for an aggregate purchase price of \$24.0 million, (i) an aggregate of 24,000 shares of Series A Convertible Preferred Stock, par value \$0.001 with a stated value of \$1,000 per share which are convertible into shares of the Company's common stock and (ii) warrants to purchase an aggregate of 36,923,078 shares of common stock. The transaction closed on September 29, 2016.

The Company received net proceeds from the sale of the convertible preferred stock and warrants of \$23.0 million, after offering expenses. The Company used \$13.0 million of the funds to satisfy in full all amounts outstanding under the Loan Agreement with Healthcare Royalty Partners, as noted above, and anticipates using the remaining proceeds for general corporate purposes.

The designations, preferences, powers and rights of the convertible preferred shares are set forth in a Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock ("Certificate of Designations") filed with the Delaware Secretary of State. The convertible preferred shares are entitled to vote on an as-converted basis with the common stock, subject to specified beneficial ownership issuance limitations. The convertible preferred shares bear dividends at a rate of six percent (6%) per annum, which are cumulative and accrue daily from the date of issuance on the \$1,000 stated value. Such dividends will not be paid in cash except in connection with any liquidation, dissolution or winding up of the Company or any redemption of the convertible preferred shares. Instead the value of the accrued dividends is added to the liquidation preference of the convertible preferred shares and will increase the number of shares of common stock issuable upon conversion. Each convertible preferred share is convertible at the option of the holder from and after the date of issuance with no expiration date, at an initial conversion price of \$0.65 per share, subject to adjustment in the event of stock splits, dividends, mergers, sales of all or substantially all of our assets or similar transactions, subject to specified beneficial ownership issuance limitations. Each holder of convertible preferred shares has the right to require us to redeem such holder's convertible preferred shares upon the occurrence of specified events, which include certain business combinations, the sale of all or substantially all of the Company's assets or the sale of more than 50% of the outstanding shares of the Company's common stock. In addition, the Company has the right to redeem the convertible preferred shares in the event of a change of control as defined in the Certificate of Designations.

The convertible preferred shares rank senior to our common stock as to distributions and payments upon the liquidation, dissolution and winding up of the Company. No such distributions or payments upon the liquidation, dissolution, and winding up of the Company may be made to the holders of common stock unless and until the holders of convertible preferred shares have received the stated value of \$1,000 per share plus any accrued and unpaid dividends. Until all convertible preferred shares have been converted or redeemed, no dividends may be paid on the common stock without the express written consent of the holders of a majority of the outstanding convertible preferred shares. In the event that dividends or other distributions of assets are made or paid by the Company to the holders of the common stock, the holders of convertible preferred shares are entitled to participate in such dividend or distribution on an as-converted basis.

On the date of the issuance, the fair value of the convertible preferred stock was greater than the allocated proceeds received for the Series A Convertible Preferred Stock. As such, the Company accounted for the beneficial conversion feature under ASC 470-20, Debt with Conversion feature under ASC 470-20, Debt with Conversion and Other Options. The Company recorded a deemed dividend charge of \$6.1 million for the accretion of a discount on the Series A Convertible Preferred Stock. The deemed dividend was a non-cash transaction and was reflected below net loss to arrive at net loss available to common stockholders in 2016. Since the convertible preferred shares are subject to conditions for redemption that are outside the Company's control, the convertible preferred shares are presently reported in the mezzanine section of the balance sheet.

The warrants issued in conjunction with the convertible preferred stock have an exercise price equal to \$0.70 per share subject to adjustments as provided under the terms of the warrants. The warrants are exercisable through September 29, 2021, subject to specified beneficial ownership issuance limitations. The warrants may be exercised by any holder on a cashless basis if, at any time after the date that is 180 days after the closing, the registration statement required by the Registration Rights Agreement is not effective and available for resale of all of the shares of common stock issuable upon exercise of such holder's warrants. Due to the fact that the warrants are

## [Table of Contents](#)

puttable upon the occurrence of certain events outside of the Company's control, the warrants qualify as liabilities under ASC 480-10. The calculated fair value of the warrants is classified as a liability and is periodically re-measured with any changes in value recognized in "Other income (expense)" in the Statements of Operations. See Note 11 for additional details.

On December 2, 2016, 100 shares of convertible preferred stock plus accumulated dividends were converted into 155,439 common shares.

### ***Listing Transfer to OTCQX® Best Market***

On August 2, 2016, the Company received a determination letter from the Nasdaq Hearings Panel (the "Panel") notifying the Company that its common stock would be delisted from The Nasdaq Capital Market ("Nasdaq") and that suspension of trading in the shares would be effective at the open of business on August 4, 2016. The delisting was completed by the filing of a Form 25 Notification of Delisting with the Securities Exchange Commission by Nasdaq on November 10, 2016. The Panel made the determination to delist the Company's common stock because the Company did not demonstrate compliance with the minimum \$35 million market value of listed securities requirement for a period of ten consecutive trading days by August 1, 2016, as required by a decision previously issued by the Panel on May 2, 2016. The Company's shares of common stock commenced trading on the OTCQX® Best Market on August 4, 2016 under the Company's current ticker symbol of "STXS."

### ***Controlled Equity Offering***

The Company entered into a Controlled Equity Offering<sup>SM</sup> sales agreement (the "Sales Agreement") in May 2014, as amended on March 26, 2015, with Cantor Fitzgerald & Co. ("Cantor"), as agent and/or principal, pursuant to which the Company could issue and sell, from time to time, shares of its common stock having an aggregate gross sales price of up to \$18.0 million. The Company paid Cantor a commission of 3.0% of the gross proceeds from any common stock sold through the Sales Agreement.

There were no proceeds from the Controlled Equity Offering during the twelve months ended December 31, 2016. The Sales Agreement expired in November 2016 upon the expiration of our Registration Statement on Form S-3.

### ***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 July 2012, the Compensation Committee of the Board of Directors adopted the 2012 Stock Incentive Plan (the "Plan") which was subsequently approved by the Company's shareholders. This plan replaced the 2002 Stock Incentive Plan which expired on March 25, 2012.

On June 5, 2013, June 10, 2014, May 24, 2016, and May 23, 2017, the shareholders approved amendments to the Plan, which were previously approved and adopted by the Compensation Committee of the Board of Directors of the Company. Under each of the amendments on June 5, 2013 and June 10, 2014, the number of shares authorized for issuance under the Plan was increased by one million shares. The amendment on May 24, 2016 increased the number of shares authorized for issuance under the Plan by 1.5 million shares, and the amendment on May 23, 2017 increased the number of shares authorized for issuance under the Plan by 4.0 million shares. At September 30, 2017, the Company had 5,570,046 remaining shares of the Company's common stock to provide for current and future grants under its various equity plans.

At September 30, 2017, 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 \$0.7 million. This cost will be amortized over a period of up to four years over the underlying estimated service periods and will be adjusted for subsequent changes in actual forfeitures and anticipated vesting periods.

## Table of Contents

A summary of the option and stock appreciation rights activity for the nine month period ended September 30, 2017 is as follows:

	Number of Options/SARs	Range of Exercise Price	Weighted Average Exercise Price per Share
Outstanding, December 31, 2016	671,887	\$1.45 - \$116.40	\$ 8.77
Granted	10,000	\$ 0.62	\$ 0.62
Exercised	—	—	—
Forfeited	(268,586)	\$2.15 - \$116.40	\$ 8.06
Outstanding, September 30, 2017	413,301	\$ 0.62 - \$54.90	\$ 9.04

A summary of the restricted stock unit activity for the nine month period ended September 30, 2017 is as follows:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value per Unit
Outstanding, December 31, 2016	1,167,099	\$ 1.48
Granted	274,736	\$ 0.61
Vested	(671,597)	\$ 1.50
Forfeited	(83,000)	\$ 1.42
Outstanding, September 30, 2017	687,238	\$ 1.12

### 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 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:

- 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.

	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets at September 30, 2017:</b>				
Cash equivalents	\$ —	\$ —	\$ —	\$ —
Total assets at fair value	\$ —	\$ —	\$ —	\$ —
<b>Liabilities at September 30, 2017:</b>				
Warrants issued May 2012	\$ 1,212	\$ —	\$ —	\$ 1,212
Warrants issued August 2013	27,581	—	—	27,581
Warrants issued September 2016	20,787,693	—	—	20,787,693
Total liabilities at fair value:	\$20,816,486	\$ —	\$ —	\$20,816,486
<b>Assets at December 31, 2016:</b>				
Cash equivalents	\$ —	\$ —	\$ —	\$ —
Total assets at fair value	\$ —	\$ —	\$ —	\$ —
<b>Liabilities at December 31, 2016:</b>				
Warrants issued May 2012	\$ 66,081	\$ —	\$ —	\$ 66,081
Warrants issued August 2013	151,695	—	—	151,695
Warrants issued September 2016	19,569,231	—	—	19,569,231
Total liabilities at fair value:	\$19,787,007	\$ —	\$ —	\$19,787,007

## [Table of Contents](#)

### Level 1

The Company does not have any financial assets or liabilities classified as Level 1.

### Level 2

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

### Level 3

In conjunction with the Company's May 2012, August 2013 and September 2016 financing transactions, the Company issued warrants to purchase shares of the Company's common stock. Due to the provisions included in the warrant agreements, the warrants did 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 re-measured with any changes in value recognized in "Other income (expense)" in the Statements of Operations.

The remaining warrants from the May 2012 transaction (PIPE Warrants) expire in May 2018 and were revalued as of September 30, 2017 using the following assumptions: 1) volatility of 71.21%; 2) risk-free interest rate of 1.31%; and 3) a closing stock price of \$0.82.

The remaining warrants from the August 2013 transaction (Exchange Warrants) expire in November 2018 and were revalued as of September 30, 2017 using the following assumptions: 1) volatility of 78.31%; 2) risk-free interest rate of 1.31%; and 3) a closing stock price of \$0.82.

The remaining warrants from the September 2016 transaction expire in September 2021 and were valued as of September 30, 2017 using the following assumptions: 1) volatility of 92.83%; 2) risk-free interest rate of 1.92%; and 3) a closing stock price of \$0.82.

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

The following table sets forth a summary of changes in the fair value of the Company's Level 3 financial liabilities for the nine month period ended September 30, 2017:

	<u>Warrants issued May 2012</u>	<u>Warrants issued August 2013</u>	<u>Warrants issued September 2016</u>	<u>Total Liabilities</u>
Balance at beginning of period	\$ 66,081	\$ 151,695	\$ 19,569,231	\$ 19,787,007
Issues	—	—	—	—
Settlements	—	—	—	—
Revaluation	(64,869)	(124,114)	1,218,462	1,029,479
Balance at end of period	<u>\$ 1,212</u>	<u>\$ 27,581</u>	<u>\$ 20,787,693</u>	<u>\$ 20,816,486</u>

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 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.

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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Warranty accrual, beginning of the fiscal period	\$ 222,845	\$ 316,835
Accrual adjustment for product warranty	31,631	103,743
Payments made	(79,529)	(197,733)
Warranty accrual, end of the fiscal period	<u>\$ 174,947</u>	<u>\$ 222,845</u>

## 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.

## 14. Subsequent Events

On November 7, 2017, the Company entered into a Third Amended and Restated Loan Agreement with Silicon Valley Bank ("Modification Agreement"), amending the terms of the Second Amended and Restated Loan and Security Agreement (Domestic) dated November 30, 2011 (as amended and as in effect immediately prior to the effectiveness of the Modification Agreement). The Modification Agreement provided for, among other terms and provisions, an adjustment in the maximum availability under the Company's revolving line of credit from \$10.0 million to \$5.0 million with the pro-rata reduction in related loan costs, as well as a reduction in the interest rate floor from 7.0% to 5.75%. This change should have no impact on the Company's typical borrowing capacity.

## 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, 2016. Operating results are not necessarily indicative of results that may occur in future periods.

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, 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 "believe", "expects", "anticipates", "intends", "estimates", "projects", "can", "could", "may", "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 are 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 cardiology instrument control system for use in a hospital's interventional surgical suite to enhance the treatment of arrhythmias and coronary artery disease. The *Epoch* Solution is comprised of the *Niobe* ES robotic system, *Odyssey* Solution, and the *Vdrive* system. We believe that the *Epoch* Solution represents a revolutionary technology in the interventional surgical suite, or "interventional lab," and has the potential to become the standard of care for a broad range of complex cardiology procedures. We also believe that our technology represents an important advance in the ongoing trend toward digital instrumentation in the interventional lab and provides substantial, clinically important improvements, and cost efficiencies over manual interventional methods, which require years of physician training and often result in long and unpredictable procedure times and sub-optimal therapeutic outcomes.

The *Niobe* ES system is the latest generation of the *Niobe* Remote Magnetic Navigation System ("*Niobe* system"). This 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. The core components of the *Niobe* system have received regulatory clearance in the U.S., Canada, Europe, China, Japan, and various other countries. As of September 30, 2017, the Company had an installed base of 127 *Niobe* ES systems.

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 *Odyssey Cinema*, 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. The *Odyssey* Solution may be acquired in conjunction with a *Niobe* system or on a stand-alone basis for installation in interventional labs and other locations where clinicians often desire the benefits of the *Odyssey* Solution that we believe can improve clinical workflows and related efficiencies.

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 (*V-Loop*, *V-Sono*, *V-CAS*, and *V-CAS Deflect*) which can be manipulated by these systems.

We generate revenue from both the initial capital sales of the *Niobe*, *Odyssey*, and *Vdrive* systems as well as recurring revenue from the sale of our proprietary disposable devices, from ongoing license and service contracts, and from royalties paid to the Company on the sale by Biosense Webster of co-developed catheters.

We have alliances with each of Biosense Webster, Inc., Philips Medical Systems, and Siemens AG Medical Solutions, through which we integrate our *Niobe* system with their respective digital imaging and 3D catheter location sensing technology, as well as disposable interventional devices. The maintenance of such alliances, or the establishment of equivalent alternatives, is critical to our commercialization efforts. The commercial availability of currently compatible digital imaging fluoroscopy systems is unlikely to continue indefinitely and efforts are being made to ensure the availability of integrated next generation systems and/or equivalent alternatives; however, we cannot assure as to the timeline of the ongoing availability of such compatible systems or our ability to obtain equivalent alternatives on competitive terms or at all.

### **Going Concern, Liquidity and Management's Plan**

The Company believes the cash on hand at September 30, 2017 and expected borrowing capacity available will be sufficient to meet its obligations as they become due in the ordinary course of business for at least 12 months following the date these financial statements are issued. This evaluation assumes the Company is able to renew and has the ability to borrow under its asset based revolving credit facility which matures on March 31, 2018. The Company expects to be able to renew this facility at similar terms, as it has successfully done so in the past. There is no assurance that the revolving credit facility will be renewed in a timely manner, in amounts that are sufficient to meet the Company's obligations as they become due, or on terms acceptable to the Company, or at all. The Company has sustained operating losses throughout its corporate history and expects that its 2017 expenses will exceed its 2017 gross margin. The Company expects to continue to incur operating losses and negative cash flows until revenues reach a level sufficient to support ongoing operations or expense reductions are in place. Accordingly, management has analyzed its planned operations to evaluate the Company's ability to continue as a going concern. The Company's liquidity needs will be largely determined by the success of clinical adoption within the installed base of *Niobe* systems as well as by new placements of capital systems. The Company's plans for improving its liquidity conditions, which are probable of effectively being implemented, primarily include its ability to control the timing and spending of its operating expenses and raising additional funds through capital transactions. Specifically, cash outflows for operating expenses could be reduced or delayed by transitioning certain cash payments to stock payments, by reducing project expenses, or by reducing headcount. The Company also may consider raising cash through capital transactions, which could include either debt or equity financing.

### **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, 2016.

#### **Revenue Recognition**

The Company accounts for revenue using Accounting Standards Codification Topic 605-25, *Multiple-Element Arrangements* ("ASC 605-25").

ASC 605-25 permits management to estimate the selling price of undelivered components of a bundled sale for which it is unable to establish vendor-specific objective evidence ("VSOE") or third-party evidence ("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 Company believes that the 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, a portion of revenue for *Niobe* systems, *Vdrive* systems, and certain *Odyssey* 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. 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 minimis 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 September 30, 2017 and 2016*

**Revenue.** Revenue decreased from \$8.3 million for the three months ended September 30, 2016 to \$8.1 million for the three months ended September 30, 2017, a decrease of 2%. Revenue from the sale of systems decreased from \$2.0 million to \$1.6 million, a decrease of approximately 18%, primarily due to decreased sales volume and change in product mix. We recognized revenue on one *Niobe* system and a total of \$0.6 million for *Odyssey* systems during the 2017 period. System revenue for the prior period included one *Niobe* system and a total of \$0.7 million for *Odyssey* systems. Revenue from sales of disposable interventional devices, service, and accessories increased to \$6.5 million for the three months ended September 30, 2017 from \$6.4 million for the three months ended September 30, 2016, an increase of approximately 3% due to increased service revenue from time and material billings.

**Cost of Revenue.** Cost of revenue decreased to \$1.9 million for the three months ended September 30, 2017 from \$2.3 million for the three months ended September 30, 2016. As a percentage of our total revenue, overall gross margin increased to 76% for the three months ended September 30, 2017 from 73% for the three months ended September 30, 2016. Cost of revenue for systems sold decreased from \$1.2 million for the three months ended September 30, 2016 to \$0.9 million for the three months ended September 30, 2017. Gross margin for systems increased to 44% for the three months ended September 30, 2017 from 36% for the three months ended September 30, 2016 due to higher margins within the *Odyssey* product line. Cost of revenue for disposables, service, and accessories remained unchanged at \$1.0 million for the three months ended September 30, 2017 and for the three months ended September 30, 2016. Gross margin for disposables, service, and accessories was 84% for the current quarter as well as for the three months ended September 30, 2016.

**Research and Development Expenses.** Research and development expenses decreased from \$1.3 million for the three months ended September 30, 2016 to \$1.2 million for the three months ended September 30, 2017, a decrease of approximately 10%. This decrease was primarily due to a reduction in headcount expense as a result of retirements as well as the timing of project-based spending.

**Sales and Marketing Expenses.** Sales and marketing expenses decreased from \$3.4 million for the three months ended September 30, 2016 to \$3.0 million for the three months ended September 30, 2017, a decrease of approximately 13%. This decrease was primarily due to lower headcount costs and related travel expenses as a result of improved efficiency of distribution of clinical sales resources.

**General and Administrative Expenses.** General and administrative expenses include regulatory, clinical, finance, information systems, legal, general management and routine training expenses. General and administrative expenses decreased from \$2.6 million for the three months ended September 30, 2016 to \$1.9 million for the three months ended September 30, 2017, a decrease of approximately 25%. This decrease was primarily driven by reduced executive headcounts costs, professional fees and rent.

**Other Income (Expense).** Other income (expense) represents the non-cash 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 decreased from \$0.8 million for the three months ended September 30, 2016 to less than \$0.1 million for the three months ended September 30, 2017 due to the extinguishment of the Healthcare Royalty Partners debt.

### *Comparison of the Nine Months Ended September 30, 2017 and 2016*

**Revenue.** Revenue decreased from \$24.9 million for the nine months ended September 30, 2016 to \$23.6 million for the nine months ended September 30, 2017, a decrease of approximately 5%. Revenue from the sale of systems decreased from \$5.0 million to \$3.6 million, a decrease of approximately 27%, primarily due to decreased sales volumes in the *Odyssey* product line. We recognized revenue on two *Niobe* systems, and a total of \$1.6 million on *Odyssey* and *Odyssey Cinema* systems during the 2017 period. System revenue for the prior year period included revenue on two *Niobe* systems as well as *Niobe* installation and ES upgrade revenue, a total of \$2.1 million on *Odyssey* and *Odyssey Cinema* systems, and a total of \$0.1 million on *Vdrive* system installations. Revenue from sales of disposable interventional devices, service, and accessories remained unchanged at \$19.9 million for the nine months ended September 30, 2017 and for the nine months ended September 30, 2016.

**Cost of Revenue.** Cost of revenue decreased from \$5.5 million for the nine months ended September 30, 2016 to \$5.4 million for the nine months ended September 30, 2017, a decrease of approximately 3%. As a percentage of our total revenue, overall gross margin decreased to 77% for the nine months ended September 30, 2017 compared to 78% during the same nine month period of the prior year. Cost of revenue for systems sold decreased from \$2.7 million for the nine months ended September 30, 2016 to \$2.0 million for the nine months ended September 30, 2017, a decrease of approximately 25%, primarily due to *Odyssey* sales volumes. Gross margin for systems decreased from 45% for the nine months ended September 30, 2016 to 44% for the nine months ended September 30, 2017. Cost of revenue for disposables, service and accessories increased to \$3.4 million during the 2017 period from \$2.8 million during the 2016 period, resulting in a decrease in gross margin to 83% from 86% between these periods driven by higher expenses incurred under service contracts in the current year period.

## [Table of Contents](#)

**Research and Development Expenses.** Research and development expenses decreased from \$4.2 million for the nine months ended September 30, 2016 to \$3.6 million for the nine months ended September 30, 2017, a decrease of approximately 14%. This decrease was primarily due to a reduction in headcount expense as a result of retirements and the timing of open positions as well as lower project-based spending and rent expense.

**Sales and Marketing Expenses.** Sales and marketing expenses decreased from \$11.5 million for the nine months ended September 30, 2016 to \$10.1 million for the nine months ended September 30, 2017, a decrease of approximately 13%. This decrease was primarily due to lower headcount costs and related travel expenses as a result of improved efficiency of distribution of clinical sales resources and the timing of open positions as well as lower rent expense.

**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 \$6.7 million for the nine months ended September 30, 2017 from \$7.9 million for the nine months ended September 30, 2016, a decrease of 15%. This decrease was primarily driven by reduced executive headcount costs, administrative, and rent expense.

**Other Income.** Other income 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. The primary drivers of fluctuations in this balance are changes in the Company's stock price from one period to the next.

**Interest Expense.** Interest expense decreased from \$2.5 million for the nine months ended September 30, 2016 to \$0.1 million for the nine months ended September 30, 2017 due to the extinguishment of the Healthcare Royalty Partners debt.

### **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 September 30, 2017 we had \$4.5 million of cash and equivalents. We had working capital deficits of \$18.0 million and \$16.2 million as of September 30, 2017 and December 31, 2016, respectively. The increase in the working capital deficit was primarily driven by operating loss during the first nine months of 2017.

The following table summarizes our cash flow by operating, investing and financing activities for the nine months ended September 30, 2017 and 2016 (in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Cash flow used in operating activities	\$ (3,872)	\$ (6,431)
Cash flow used in investing activities	(72)	—
Cash flow provided by (used in) financing activities	(70)	10,082

**Net cash used in operating activities.** We used approximately \$3.9 million and \$6.4 million of cash for operating activities during the nine months ended September 30, 2017 and 2016, respectively. The decrease in cash used in operating activities was driven by reduced operating losses and interest expense partially offset by changes in working capital.

**Net cash used in investing activities.** We used approximately \$72,000 of cash during the nine month period ended September 30, 2017 for the purchases of equipment, and there were no purchases of equipment for the nine month period ended September 30, 2016.

**Net cash provided by (used in) financing activities.** We used approximately \$70,000 of cash for the nine month periods ended September 30, 2017, compared to approximately \$10.1 million generated for the nine month period ended September 30, 2016. The cash used for the nine months ended September 30, 2017 was driven by payments of deferred financing costs offset by proceeds from issuance of stock, net of issuance costs. The cash generated for the nine months ended September 30, 2016 was driven by the proceeds from our September 29, 2016 preferred stock issuance net of issuance costs and the payoff of the Healthcare Royalty Partners debt.

The Company believes the cash on hand at September 30, 2017 and expected borrowing capacity available will be sufficient to meet its obligations as they become due in the ordinary course of business for at least 12 months following the date these financial statements are issued. This evaluation assumes the Company is able to renew and borrow under its asset based revolving credit facility which matures on March 31, 2018. The Company expects to be able to renew this facility at similar terms, as it has successfully done so in the past. There is no assurance that the revolving credit facility will be renewed in a timely manner, in amounts that are sufficient to meet the Company's obligations as they become due, or on terms acceptable to the Company, or at all. The Company has sustained operating losses throughout its corporate history and expects that its 2017 expenses will exceed its 2017 gross margin. The Company

## [Table of Contents](#)

expects to continue to incur operating losses and negative cash flows until revenues reach a level sufficient to support ongoing operations or expense reductions are in place. The Company's liquidity needs will be largely determined by the success of clinical adoption within the installed base of *Niobe* systems as well as by new placements of capital systems. The Company's plans for improving its liquidity conditions, which are probable of effectively being implemented, primarily include its ability to control the timing and spending of its operating expenses and raising additional funds through capital transactions. Specifically, cash outflows for operating expenses could be reduced or delayed by transitioning certain cash payments to stock payments, by reducing project expenses, or by reducing headcount. The Company also may consider raising cash through capital transactions, which could include either debt or equity financing.

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 cash needs through the sale of other equity securities or non-core assets, strategic collaboration agreements, debt financings, or through distribution rights. We cannot assure you that such additional financing will be available on a timely basis on terms acceptable to us or at all, that we will be able to engage in equity financings because our common stock is no longer listed on a national securities exchange, 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.

### *Capital Resources*

As of September 30, 2017, our borrowing facilities were comprised of a revolving line of credit maintained with our primary lender, Silicon Valley Bank.

#### *Revolving Line of Credit*

The Company has had a working capital line of credit with its primary lender, Silicon Valley Bank, since 2004. The revolving line of credit is secured by substantially all of the Company's assets. As of September 30, 2017 the maximum available under the line was \$10.0 million subject to the value of certain collateralized assets. The Company is required under the revolving line of credit to maintain its primary operating account and the majority of its cash and investment balances in accounts with its primary lender. The facility was amended on March 27, 2015, extending the maturity date to March 31, 2018 and on May 10, 2016, the Company and the primary lender agreed to modify certain financial covenants. The amended agreement requires the Company to maintain a liquidity ratio greater than 1.50:1.00, excluding certain short term advances from the calculation, and a minimum tangible net worth of not less than (no worse than) negative \$24.0 million for the quarters ended June 30, 2016, September 30, 2016, December 31, 2016, March 31, 2017, June 30, 2017, and September 30, 2017; and not less than (no worse than) negative \$24.5 million for the quarters ended December 31, 2017 and March 31, 2018. As of September 30, 2017, the Company is in compliance with its loan covenants.

As of September 30, 2017, the Company had no outstanding balance 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 September 30, 2017, the Company had a borrowing capacity of \$3.0 million based on the Company's collateralized assets. The Company's total liquidity as of September 30, 2017, was \$7.5 million which included cash and cash equivalents of \$4.5 million.

On November 7, 2017, the Company entered into a Third Amended and Restated Loan Agreement with Silicon Valley Bank ("Modification Agreement"), amending the terms of the Second Amended and Restated Loan and Security Agreement (Domestic) dated November 30, 2011 (as amended and as in effect immediately prior to the effectiveness of the Modification Agreement). The Modification Agreement provided for, among other terms and provisions, an adjustment in the maximum availability under the Company's revolving line of credit from \$10.0 million to \$5.0 million with the pro-rata reduction in related loan costs, as well as a reduction in the interest rate floor from 7.0% to 5.75%. This change should have no impact on the Company's typical borrowing capacity.

#### *Healthcare Royalty Partners Debt*

In November 2011, we entered into a loan agreement with Healthcare Royalty Partners. Under the agreement the Company borrowed \$15 million from Healthcare Royalty Partners. 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* ES 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* ES 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* ES system sales for the twelve months ended December 31, 2012. The loan was to be repaid through,



## [Table of Contents](#)

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* ES system in cardiac ablation procedures. Under the terms of the agreement, Healthcare Royalty Partners was entitled to receive 100% of all royalties due to the Company under the Biosense Agreement until the loan was repaid. The loan was a full recourse loan, scheduled to mature on December 31, 2018, and included 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 were insufficient to pay all amounts of interest due on the loan, then such deficiency would have increased the outstanding principal amount on the loan. The loan was also secured by certain assets and intellectual property of the Company. The agreement also contained customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender.

In September 2016, the Company extinguished the remainder of the debt of \$18.1 million, net of deferred financing costs of approximately \$0.3 million, as well as accrued interest of \$0.5 million for \$13.0 million based upon an agreement entered into with Healthcare Royalty Partners. Following the repayment of the loan obligation, the royalties under the Biosense Agreement are now paid to the Company. As a result of the debt extinguishment, the Company recognized a net gain of \$5.6 million in 2016.

### *Common Stock*

The holders of common stock are entitled to one vote for each share held and to receive dividends whenever funds are legally available and when declared by the Board of Directors subject to the rights of holders of all classes of stock having priority rights as dividends and the conditions of the revolving line of credit agreement. No dividends have been declared or paid as of September 30, 2017.

### ***Convertible Preferred Stock and Warrants***

On September 26, 2016, the Company entered into a Securities Purchase Agreement with certain institutional and other accredited investors whereby it agreed to sell, for an aggregate purchase price of \$24.0 million, (i) an aggregate of 24,000 shares of Series A Convertible Preferred Stock, par value \$0.001 with a stated value of \$1,000 per share which are convertible into shares of the Company’s common stock and (ii) warrants to purchase an aggregate of 36,923,078 shares of common stock. The transaction closed on September 29, 2016.

The Company received net proceeds from the sale of the convertible preferred stock and warrants of \$23.0 million, after offering expenses. The Company used \$13.0 million of the funds to satisfy in full all amounts outstanding under the Loan Agreement with Healthcare Royalty Partners, as noted above, and anticipates using the remaining proceeds for general corporate purposes.

The designations, preferences, powers and rights of the convertible preferred shares are set forth in a Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock (“Certificate of Designations”) filed with the Delaware Secretary of State. The convertible preferred shares are entitled to vote on an as-converted basis with the common stock, subject to specified beneficial ownership issuance limitations. The convertible preferred shares bear dividends at a rate of six percent (6%) per annum, which are cumulative and accrue daily from the date of issuance on the \$1,000 stated value. Such dividends will not be paid in cash except in connection with any liquidation, dissolution or winding up of the Company or any redemption of the convertible preferred shares. Instead the value of the accrued dividends is added to the liquidation preference of the convertible preferred shares and will increase the number of shares of common stock issuable upon conversion. Each convertible preferred share is convertible at the option of the holder from and after the date of issuance with no expiration date, at an initial conversion price of \$0.65 per share, subject to adjustment in the event of stock splits, dividends, mergers, sales of all or substantially all of our assets or similar transactions, subject to specified beneficial ownership issuance limitations. Each holder of convertible preferred shares has the right to require us to redeem such holder’s convertible preferred shares upon the occurrence of specified events, which include certain business combinations, the sale of all or substantially all of the Company’s assets, or the sale of more than 50% of the outstanding shares of the Company’s common stock. In addition, the Company has the right to redeem the convertible preferred shares in the event of a change of control as defined in the Certificate of Designations.

The convertible preferred shares rank senior to our common stock as to distributions and payments upon the liquidation, dissolution, and winding up of the Company. No such distributions or payments upon the liquidation, dissolution, and winding up of the Company may be made to the holders of common stock unless and until the holders of convertible preferred shares have received the stated value of \$1,000 per share plus any accrued and unpaid dividends. Until all convertible preferred shares have been converted or redeemed, no dividends may be paid on the common stock without the express written consent of the holders of a majority of the outstanding convertible preferred shares. In the event that dividends or other distributions of assets are made or paid by the Company to the holders of the common stock, the holders of convertible preferred shares are entitled to participate in such dividend or distribution on an as-converted basis.

## [Table of Contents](#)

On the date of the issuance, the fair value of the convertible preferred stock was greater than the allocated proceeds received for the Series A Convertible Preferred Stock. As such, the Company accounted for the beneficial conversion feature under ASC 470-20, Debt with Conversion feature under ASC 470-20, Debt with Conversion and Other Options. The Company recorded a deemed dividend charge of \$6.1 million for the accretion of a discount on the Series A Convertible Preferred Stock. The deemed dividend was a non-cash transaction and was reflected below net loss to arrive at net loss available to common stockholders in 2016. Since the convertible preferred shares are subject to conditions for redemption that are outside the Company's control, the convertible preferred shares are presently reported in the mezzanine section of the balance sheet.

The warrants issued in conjunction with the convertible preferred stock have an exercise price equal to \$0.70 per share subject to adjustments as provided under the terms of the warrants. The warrants are exercisable through September 29, 2021, subject to specified beneficial ownership issuance limitations. The warrants may be exercised by any holder on a cashless basis if, at any time after the date that is 180 days after the closing, the registration statement required by the Registration Rights Agreement is not effective and available for resale of all of the shares of common stock issuable upon exercise of such holder's warrants. Due to the fact that the warrants are puttable upon the occurrence of certain events outside of the Company's control, the warrants qualify as liabilities under ASC 480-10. The calculated fair value of the warrants is classified as a liability and is periodically re-measured with any changes in value recognized in "Other income (expense)" in the Statements of Operations. See Note 11 for additional details.

### ***Controlled Equity Offering***

The Company entered into a Controlled Equity Offering<sup>SM</sup> sales agreement (the "Sales Agreement") in May 2014, as amended on March 26, 2015, with Cantor Fitzgerald & Co. ("Cantor"), as agent and/or principal, pursuant to which the Company could issue and sell, from time to time, shares of its common stock having an aggregate gross sales price of up to \$18.0 million. The Company paid Cantor a commission of 3.0% of the gross proceeds from any common stock sold through the Sales Agreement.

There were no proceeds from the Controlled Equity Offering during the twelve months ended December 31, 2016. The Sales Agreement expired in November 2016 upon the expiration of our Registration Statement on Form S-3.

### ***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. [RESERVED]**

None.

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

*Disclosure Controls and Procedures:* The Company's management, with the participation of the Company's 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 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 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**

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**

Additional Risk Factors are discussed in our Annual Report on Form 10-K for the year ended December 31, 2016.

**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**

On November 7, 2017, the Company entered into a Third Amended and Restated Loan Agreement with Silicon Valley Bank (“Modification Agreement”), amending the terms of the Second Amended and Restated Loan and Security Agreement (Domestic) dated November 30, 2011 (as amended and as in effect immediately prior to the effectiveness of the Modification Agreement). The Modification Agreement provided for, among other terms and provisions, an adjustment in the maximum availability under the Company’s revolving line of credit from \$10.0 million to \$5.0 million with the pro-rata reduction in related loan costs, as well as a reduction in the interest rate floor from 7.0% to 5.75%. This change should have no impact on the Company’s typical borrowing capacity.

**ITEM 6. EXHIBITS**

Exhibits: See Exhibit Index herein

**EXHIBIT INDEX**

<u>Number</u>	<u>Description</u>
3.1	<a href="#">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.</a>
3.2	<a href="#">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.</a>
3.3	<a href="#">Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K (file No. 001-36159) filed on September 30, 2016.</a>
3.4	<a href="#">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.</a>
10.1	<a href="#">Third Amended and Restated Loan and Security Agreement, effective November 7, 2017, by and among the Company, Stereotaxis International, Inc. and Silicon Valley Bank.</a>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).</a>
32.1	<a href="#">Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).</a>
32.2	<a href="#">Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).</a>
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.

**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: November 9, 2017

By: /s/ David L. Fischel  
**David L. Fischel**  
**Chief Executive Officer**

Date: November 9, 2017

By: /s/ Martin C. Stammer  
**Martin C. Stammer**  
**Chief Financial Officer**

## THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

**THIS THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT** (this “**Agreement**”) dated as of November 7, 2017 (the “**Effective Date**”) by and between (i) **SILICON VALLEY BANK**, a California corporation with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054 and with a loan production office located at 380 Interlocken Crescent, Suite 600, Broomfield, Colorado 80021 (“**Bank**”), and (ii) **STEREOTAXIS, INC.**, a Delaware corporation (“**Stereotaxis**”) and **STEREOTAXIS INTERNATIONAL, INC.**, a Delaware corporation (“**International**”, and together with Stereotaxis, individually and collectively, jointly and severally, the “**Borrower**”), each with offices located at 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108. This Agreement amends and restates in its entirety that certain Second Amended and Restated Loan and Security Agreement (Domestic) dated as of November 30, 2011 (as amended and as in effect immediately prior to the effectiveness of this Agreement, the “**Prior Loan Agreement**”). The parties agree as follows:

## 1 **ACCOUNTING AND OTHER TERMS**

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

## 2 **LOAN AND TERMS OF PAYMENT**

**2.1 Promise to Pay.** Borrower hereby unconditionally, individually and collectively, jointly and severally promises to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

### 2.2 **Revolving Line.**

(a) **Availability.** Subject to the terms and conditions of this Agreement and to deduction of Reserves, Bank shall make Advances not exceeding the Availability Amount. Amounts borrowed under the Revolving Line may be repaid and, prior to the Revolving Line Maturity Date, reborrowed, subject to the applicable terms and conditions precedent herein.

(b) **Termination; Repayment.** The Revolving Line terminates on the Revolving Line Maturity Date, when the principal amount of all Advances, the unpaid interest thereon, and all other Obligations relating to the Revolving Line shall be immediately due and payable.

**2.3 Overadvances.** If, at any time, the outstanding principal amount of any Advances exceeds the lesser of either the Revolving Line or the Borrowing Base, Borrower shall immediately pay to Bank in cash the amount of such excess (such excess, the “**Overadvance**”). Without limiting Borrower’s obligation to repay Bank any Overadvance, Borrower agrees to pay Bank interest on the outstanding amount of any Overadvance, on demand, at a per annum rate equal to the rate that is otherwise applicable to Advances plus five percent (5.00%).

### 2.4 **Payment of Interest on the Credit Extensions.**

(a) **Interest Rate; Advances.** Subject to Section 2.4(b), the principal amount outstanding under the Revolving Line shall accrue interest at a floating per annum rate equal to the greater of (X) one and one-half of one percent (1.50%) above the Prime Rate; and (Y) five and three-quarters of one percent (5.75%), which interest shall in any event be payable monthly in accordance with Section 2.4(d) below.

(b) **Default Rate.** Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is five percent (5.00%) above the rate that is

otherwise applicable thereto (the “**Default Rate**”). Fees and expenses which are required to be paid by Borrower pursuant to the Loan Documents (including, without limitation, Bank Expenses) but are not paid when due shall bear interest until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of the increased interest rate provided in this Section 2.4(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

(c) Adjustment to Interest Rate. Changes to the interest rate of any Credit Extension based on changes to the Prime Rate shall be effective on the effective date of any change to the Prime Rate and to the extent of any such change.

(d) Payment; Interest Computation. Interest is payable monthly on the Payment Date of each month and shall be computed on the basis of a 360-day year for the actual number of days elapsed. In computing interest, (i) all payments received after 12:00 noon Eastern time on any day shall be deemed received at the opening of business on the next Business Day, and (ii) the date of the making of any Credit Extension shall be included and the date of payment shall be excluded; provided, however, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension.

## 2.5 Fees. Borrower shall pay to Bank:

(a) Termination Fee. Upon termination of this Agreement or the termination of the Revolving Line for any reason prior to the Revolving Line Maturity Date, in addition to the payment of any other amounts then-owing, a termination fee in an amount equal to (i) if such termination occurs prior to the first anniversary of the Effective Date, Fifty Thousand Dollars (\$50,000.00); or (ii) Zero Dollars (\$0.00), if such termination occurs on or at any time after the first anniversary of the Effective Date; provided that no termination fee shall be charged if the credit facility hereunder is replaced with a new facility from Bank;

(b) Unused Revolving Line Facility Fee. Payable quarterly in arrears on the last day of each calendar quarter occurring prior to the Revolving Line Maturity Date, and on the Revolving Line Maturity Date, a fee (the “**Unused Revolving Line Facility Fee**”) in an amount equal to thirty five one hundredths percent (0.35%) per annum of the average unused portion of the Revolving Line, as determined by Bank, computed on the basis of a year with the applicable number of days as set forth in Section 2.4(d). The unused portion of the Revolving Line, for purposes of this calculation, shall be calculated on a calendar year basis and shall equal the difference between (i) the Revolving Line, and (ii) the average for the period of the daily closing balance of the Revolving Line outstanding;

(c) Collateral Monitoring Fee. A monthly collateral monitoring fee of Seven Hundred Fifty Dollars (\$750.00), payable in arrears on the last day of each month (prorated for any partial month at the beginning and upon termination of this Agreement); and

(d) Bank Expenses. All Bank Expenses (including reasonable attorneys’ fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due (or, if no stated due date, upon demand by Bank).

(e) Fees Fully Earned. Unless otherwise provided in this Agreement or in a separate writing by Bank, Borrower shall not be entitled to any credit, rebate, or repayment of any fees earned by Bank pursuant to this Agreement notwithstanding any termination of this Agreement or the suspension or termination of Bank’s obligation to make loans and advances hereunder. Bank may deduct amounts owing by Borrower under the clauses of this Section 2.5 pursuant to the terms of Section 2.6(c). Bank shall provide Borrower written notice of deductions made from the Designated Deposit Account pursuant to the terms of the clauses of this Section 2.5.

## 2.6 Payments; Application of Payments; Debit of Accounts.

(a) All payments to be made by Borrower under any Loan Document shall be made in immediately available funds in Dollars, without setoff or counterclaim, before 12:00 noon Eastern time on the date when due. Payments of principal and/or interest received after 12:00 noon Eastern time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid.

(b) Bank has the exclusive right to determine the order and manner in which all payments with respect to the Obligations may be applied. Borrower shall have no right to specify the order or the accounts to which Bank shall allocate or apply any payments required to be made by Borrower to Bank or otherwise received by Bank under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

(c) Bank may debit any of Borrower's deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes Bank when due. These debits shall not constitute a set-off.

**2.7 Withholding.** Payments received by Bank from Borrower under this Agreement will be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority (including any interest, additions to tax or penalties applicable thereto). Specifically, however, if at any time any Governmental Authority, applicable law, regulation or international agreement requires Borrower to make any withholding or deduction from any such payment or other sum payable hereunder to Bank, Borrower hereby covenants and agrees that the amount due from Borrower with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that, after the making of such required withholding or deduction, Bank receives a net sum equal to the sum which it would have received had no withholding or deduction been required, and Borrower shall pay the full amount withheld or deducted to the relevant Governmental Authority. Borrower will, upon request, furnish Bank with proof reasonably satisfactory to Bank indicating that Borrower has made such withholding payment; provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate and timely proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this Section 2.7 shall survive the termination of this Agreement.

### **3 CONDITIONS OF LOANS**

**3.1 Conditions Precedent to Initial Credit Extension.** Bank's obligation to make the initial Credit Extension hereunder is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

- (a) duly executed original signatures to the Loan Documents;
- (b) duly executed original signatures to the Control Agreements, if any;
- (c) [reserved];
- (d) a secretary's certificate of Borrower with respect to each Borrower's Operating Documents, incumbency, specimen signatures and resolutions authorizing the execution and delivery of this Agreement and the other Loan Documents to which it is a party;
- (e) duly executed original signatures to the completed Borrowing Resolutions for Borrower;
- (f) certified copies, dated as of a recent date, of financing statement searches, as Bank may request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;
- (g) the Perfection Certificates of Borrower, together with the duly executed original signatures thereto;

(h) Intellectual Property search results and completed exhibits to the IP Agreement;

(i) [reserved];

(j) [reserved];

(k) evidence satisfactory to Bank that the insurance policies and endorsements required by Section 6.7 hereof are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses or endorsements in favor of Bank; and

(l) payment of the fees and Bank Expenses then due as specified in Section 2.5 hereof.

**3.2 Conditions Precedent to all Credit Extensions.** Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) timely receipt of the Credit Extension request and any materials and documents required by Section 3.4;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the proposed Credit Extension and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and

(c) Bank determines to its satisfaction that there has not been any material impairment in the general affairs, management, results of operation, financial condition or the prospect of repayment of the Obligations, nor any material adverse deviation by Borrower from the most recent business plan of Borrower presented to and accepted by Bank.

**3.3 Covenant to Deliver.** Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

**3.4 Procedures for Borrowing; Advances.** Subject to the prior satisfaction of all other applicable conditions to the making of an Advance set forth in this Agreement, to obtain an Advance, Borrower (via an individual duly authorized by an Administrator) shall notify Bank (which notice shall be irrevocable) by electronic mail by 12:00 noon Eastern time on the Funding Date of the Advance. Such notice shall be made by Borrower through Bank's online banking program; provided, however, if Borrower is not utilizing Bank's online banking program, then such notice shall be in a written format acceptable to Bank that is executed by an Authorized Signer. Bank shall have received satisfactory evidence that the Board has approved that such Authorized Signer may provide such notices and request Advances. In connection with any such notification, Borrower must promptly deliver to Bank by electronic mail or through Bank's online banking program such reports and information, including without limitation, sales journals, cash receipts journals, accounts receivable aging reports, as Bank may request in its sole discretion. Bank shall credit proceeds of an Advance to the Designated Deposit Account. Bank may make Advances under this Agreement based on instructions from an Authorized Signer or without instructions if the Advances are necessary to meet Obligations which have become due.

#### **4 CREATION OF SECURITY INTEREST**

**4.1 Grant of Security Interest.** Borrower hereby grants Bank, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof.

Borrower acknowledges that it previously has entered, and/or may in the future enter, into Bank Services Agreements with Bank. Regardless of the terms of any Bank Services Agreement, Borrower agrees that any amounts Borrower owes Bank thereunder shall be deemed to be Obligations hereunder and that it is the intent of Borrower and Bank to have all such Obligations secured by the first priority perfected security interest in the Collateral granted herein (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien in this Agreement).

If this Agreement is terminated, Bank's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall, at the sole cost and expense of Borrower, release its Liens in the Collateral and all rights therein shall revert to Borrower. In the event (x) all Obligations (other than inchoate indemnity obligations), except for Bank Services, are satisfied in full, and (y) this Agreement is terminated, Bank shall terminate the security interest granted herein upon Borrower providing cash collateral acceptable to Bank in its good faith business judgment for Bank Services, if any. In the event such Bank Services consist of outstanding Letters of Credit, Borrower shall provide to Bank cash collateral in an amount equal to (x) if such Letters of Credit are denominated in Dollars, then at least one hundred five percent (105.0%); and (y) if such Letters of Credit are denominated in a Foreign Currency, then at least one hundred ten percent (110.0%), of the Dollar Equivalent of the face amount of all such Letters of Credit plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its business judgment), or such other collateral acceptable to Bank, in its sole discretion, to secure all of the Obligations relating to such Letters of Credit.

**4.2 Priority of Security Interest.** Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien under this Agreement). If Borrower shall acquire a commercial tort claim, Borrower shall promptly notify Bank in a writing signed by Borrower of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.

**4.3 Authorization to File Financing Statements.** Borrower hereby authorizes Bank to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate the rights of Bank under the Code. Such financing statements may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in Bank's discretion.

#### **5 REPRESENTATIONS AND WARRANTIES**

Borrower represents and warrants as follows:

**5.1 Due Organization, Authorization; Power and Authority.** Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business. In connection with this Agreement, Borrower has delivered to Bank completed certificates signed by each Borrower, entitled "Perfection Certificate" (the "**Perfection Certificate**"). Borrower represents and warrants to Bank that (a) Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) Borrower is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Borrower's



organizational identification number or accurately states that Borrower has none; (d) the Perfection Certificate accurately sets forth Borrower's place of business, or, if more than one, its chief executive office as well as Borrower's mailing address (if different than its chief executive office); (e) Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to Borrower and each of its Subsidiaries is accurate and complete (it being understood and agreed that Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date to the extent permitted by one or more specific provisions in this Agreement). If Borrower is not now a Registered Organization but later becomes one, Borrower shall promptly notify Bank of such occurrence and provide Bank with Borrower's organizational identification number.

The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect), or (v) conflict with, contravene, constitute a default or breach under, or result in or permit the termination or acceleration of, any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on Borrower's business.

**5.2 Collateral.** Borrower has good title to, has rights in, and the power to transfer each item of Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Borrower has no deposit accounts other than (i) the deposit accounts with Bank; (ii) deposit accounts described in the Perfection Certificate delivered to Bank in connection herewith or of which Borrower has given Bank notice and taken such actions as are necessary to give Bank a perfected security interest therein; (iii) deposit accounts described in the last Sentence of Section 6.8(b) and (iv) the Foreign Accounts. The Accounts are bona fide, existing obligations of the Account Debtors.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

All Inventory is in all material respects of good and marketable quality, free from material defects.

Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) non-exclusive licenses granted to its customers in the ordinary course of business, (b) over-the-counter software that is commercially available to the public, (c) material Intellectual Property licensed to Borrower and noted on the Perfection Certificate, (d) jointly owned Intellectual Property as provided in the Biosense Agreement and (e) the other Jointly Owned Intellectual Property. Each Patent which it owns or purports to own and which is material to Borrower's business is valid and enforceable, and no part of the Intellectual Property which Borrower owns or purports to own and which is material to Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not have a material adverse effect on Borrower's business.

Except as noted on the Perfection Certificate, Borrower is not a party to, nor is it bound by, any Restricted License.

### **5.3 Accounts Receivable; Inventory.**

(a) For each Account with respect to which Advances are requested, on the date each Advance is requested and made, such Account shall be an Eligible Account.

(b) All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing the Eligible Accounts are and shall be true and correct and all such invoices, instruments and other documents, and all of Borrower's Books are genuine and in all respects what they purport to be. All sales and other transactions underlying or giving rise to each Eligible Account shall comply in all material respects with all applicable laws and governmental rules and regulations. Borrower has no knowledge of any actual or imminent Insolvency Proceeding of any Account Debtor whose accounts are Eligible Accounts in any Borrowing Base Report. To the best of Borrower's knowledge, all signatures and endorsements on all documents, instruments, and agreements relating to all Eligible Accounts are genuine, and all such documents, instruments and agreements are legally enforceable in accordance with their terms.

(c) For any item of Inventory consisting of Eligible Inventory in any Borrowing Base Report, such Inventory (i) consists of finished goods, in good, new, and salable condition, which is not perishable, returned, consigned, obsolete, not sellable, damaged, or defective, and is not comprised of demonstrative or custom inventory, works in progress, packaging or shipping materials, or supplies; (ii) meets all applicable governmental standards and is not pending approval by the U.S. Food and Drug Administration; (iii) has been manufactured in compliance with the Fair Labor Standards Act; (iv) is not subject to any Liens, except the first priority Liens granted or in favor of Bank under this Agreement or any of the other Loan Documents; and (v) is located in the United States at the locations identified by Borrower in the Perfection Certificate where it maintains Inventory (or at any location permitted under Section 7.2), and subject to a landlord's consent/balilee waiver, as applicable, in favor of Bank.

**5.4 Litigation.** Except as described in the Perfection Certificate and as disclosed to Bank from time to time, there are no actions or proceedings pending or, to the knowledge of any Responsible Officer, threatened in writing by or against Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, Two Hundred Thousand Dollars (\$200,000.00).

**5.5 Financial Statements; Financial Condition.** All consolidated financial statements for Borrower and any of its Subsidiaries delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

**5.6 Solvency.** The fair salable value of Borrower's consolidated assets (including goodwill minus disposition costs) exceeds the fair value of Borrower's liabilities; Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

**5.7 Regulatory Compliance.** Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower (a) has complied in all material respects with all Requirements of Law, and (b) has not violated any Requirements of Law the violation of which could reasonably be expected to have a material adverse effect on its business. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted.

**5.8 Subsidiaries; Investments.** Borrower does not own any stock, partnership, or other ownership interest or other equity securities except for Permitted Investments.

**5.9 Tax Returns and Payments; Pension Contributions.** Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except to the extent such taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor.

To the extent Borrower defers payment of any contested taxes, Borrower shall (i) notify Bank in writing of the commencement of, and any material development in, the proceedings, and (ii) post bonds or take any other steps required to prevent the Governmental Authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "Permitted Lien." Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

**5.10 Use of Proceeds.** Borrower shall use the proceeds of the Credit Extensions (i) for the repayment in full of all outstanding obligations and liabilities under the Prior Loan Agreement, and (ii) as working capital and to fund its general business requirements and not for personal, family, household or agricultural purposes.

**5.11 Full Disclosure.** No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

**5.12 Definition of "Knowledge."** For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower's knowledge or awareness, to the "best of" Borrower's knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of any Responsible Officer.

## **6 AFFIRMATIVE COVENANTS**

Borrower shall do all of the following:

### **6.1 Government Compliance.**

(a) Maintain its and all its Subsidiaries' legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on Borrower's business or operations. Borrower shall comply, and have each Subsidiary comply, in all material respects, with all laws, ordinances and regulations to which it is subject.

(b) Obtain all of the Governmental Approvals necessary for the performance by Borrower of its obligations under the Loan Documents to which it is a party and the grant of a security interest to Bank in all of its property. Borrower shall promptly provide copies of any such obtained Governmental Approvals to Bank.

### **6.2 Financial Statements, Reports, Certificates.** Provide Bank with the following:

(a) a Borrowing Base Report (and an A/R ledger agings report, in form and substance reasonably acceptable to Bank, together with any schedules related thereto and including any other information requested by Bank with respect to Borrower's Accounts) (i) with each request for an Advance; and (ii) within thirty (30) days after the end of each month;

(b) within thirty (30) days after the end of each month, (A) monthly accounts receivable agings, aged by invoice date, (B) monthly accounts payable agings, aged by invoice date, and outstanding or held check registers, if any, (C) monthly reconciliations of accounts receivable agings (aged by invoice date), transaction reports, Deferred Revenue report and general ledger, and (D) monthly perpetual inventory reports for Inventory valued on a first-in, first-out basis at the lower of cost or market (in accordance with GAAP) or such other inventory reports as are requested by Bank in its good faith business judgment;

(c) as soon as available, but no later than thirty (30) days after the last day of each month, a company prepared consolidated and consolidating balance sheet, statement of cash flows and income statement covering Borrower's and each of its Subsidiary's operations for such month certified by a Responsible Officer and in a form acceptable to Bank (the "**Monthly Financial Statements**");

(d) within thirty (30) days after the last day of each month and together with the Monthly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Bank may reasonably request, including, without limitation, a statement that at the end of such month there were no held checks;

(e) within thirty (30) days prior to the end of each fiscal year of Borrower, and contemporaneously with any updates or amendments thereto, annual operating budgets (including income statements, balance sheets and cash flow statements, by month) for the upcoming fiscal year of Borrower, as approved by the Board, together with any related business forecasts used in the preparation of such annual financial projections;

(f) as soon as available, and in any event within one hundred twenty (120) days following the end of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm reasonably acceptable to Bank;

(g) within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the internet at Borrower's website address; provided, however, Borrower shall promptly notify Bank in writing (which may be by electronic mail) of the posting of any such documents;

(h) within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt;

(i) prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could result in damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, Two Hundred Thousand Dollars (\$200,000.00) or more; and

(j) promptly, from time to time, such other information regarding Borrower or compliance with the terms of any Loan Documents as reasonably requested by Bank.

### **6.3 Accounts Receivable.**

(a) Schedules and Documents Relating to Accounts. Borrower shall deliver to Bank transaction reports and schedules of collections, as provided in Section 6.2, on Bank's standard forms; provided, however, that Borrower's failure to execute and deliver the same shall not affect or limit Bank's Lien and other rights in all of Borrower's Accounts, nor shall Bank's failure to advance or lend against a specific Account affect or

limit Bank's Lien and other rights therein. If requested by Bank, Borrower shall furnish Bank with copies (or, at Bank's request, originals, if available) of all contracts, orders, invoices, and other similar documents, and all shipping instructions, delivery receipts, bills of lading, and other evidence of delivery, for any goods the sale or disposition of which gave rise to such Accounts. In addition, Borrower shall deliver to Bank, on its request, the originals of all instruments, chattel paper, security agreements, guarantees and other documents and property evidencing or securing any Accounts, in the same form as received, with all necessary indorsements, and copies of all credit memos.

(b) Disputes. Borrower shall promptly notify Bank of all disputes or claims relating to Accounts (i) in excess of Two Hundred Thousand Dollars (\$200,000.00) for any individual Account Debtor and (ii) in excess of Two Hundred Fifty Thousand Dollars (\$250,000.00) in the aggregate for all Account Debtors in any calendar year. Borrower may forgive (completely or partially), compromise, or settle any Account for less than payment in full, or agree to do any of the foregoing so long as (i) Borrower does so in good faith, in a commercially reasonable manner, in the ordinary course of business, in arm's-length transactions, and reports the same to Bank in the regular reports provided to Bank; (ii) no Default or Event of Default has occurred and is continuing; and (iii) after taking into account all such discounts, settlements and forgiveness, the total outstanding Advances will not exceed the Availability Amount.

(c) Collection of Accounts. Borrower shall direct Account Debtors to deliver or transmit all proceeds of Accounts into a lockbox account, or such other "blocked account" as specified by Bank (either such account, the "**Cash Collateral Account**"). Whether or not an Event of Default has occurred and is continuing, Borrower shall immediately deliver all payments on and proceeds of Accounts to the Cash Collateral Account. Subject to Bank's right to maintain a reserve pursuant to Section 6.3(d), all amounts received in the Cash Collateral Account shall be applied to immediately reduce the Obligations under the Revolving Line (unless Bank, in its sole discretion, at times when an Event of Default exists, elects not to so apply such amounts). Borrower hereby authorizes Bank to transfer to the Cash Collateral Account any amounts that Bank reasonably determines are proceeds of the Accounts (provided that Bank is under no obligation to do so and this allowance shall in no event relieve Borrower of its obligations hereunder).

(d) Reserves. Notwithstanding any terms in this Agreement to the contrary, at times when an Event of Default exists, Bank may hold any proceeds of the Accounts and any amounts in the Cash Collateral Account that are not applied to the Obligations pursuant to Section 6.3(c) above as a reserve to be applied to any Obligations regardless of whether such Obligations are then due and payable.

(e) Returns. Provided no Event of Default has occurred and is continuing, if any Account Debtor returns any Inventory to Borrower, Borrower shall promptly (i) determine the reason for such return, (ii) issue a credit memorandum to the Account Debtor in the appropriate amount, and (iii) provide a copy of such credit memorandum to Bank, upon request from Bank. In the event any attempted return occurs after the occurrence and during the continuance of any Event of Default, Borrower shall hold the returned Inventory in trust for Bank, and immediately notify Bank of the return of the Inventory.

(f) Verifications; Confirmations; Credit Quality; Notifications. Bank may, from time to time, (i) verify and confirm directly with the respective Account Debtors the validity, amount and other matters relating to the Accounts, either in the name of Borrower or Bank or such other name as Bank may choose, and notify any Account Debtor of Bank's security interest in such Account and/or (ii) conduct a credit check of any Account Debtor to approve any such Account Debtor's credit.

(g) No Liability. Bank shall not be responsible or liable for any shortage or discrepancy in, damage to, or loss or destruction of, any goods, the sale or other disposition of which gives rise to an Account, or for any error, act, omission, or delay of any kind occurring in the settlement, failure to settle, collection or failure to collect any Account, or for settling any Account in good faith for less than the full amount thereof, nor shall Bank be deemed to be responsible for any of Borrower's obligations under any contract or agreement giving rise to an Account. Nothing herein shall, however, relieve Bank from liability for its own gross negligence or willful misconduct.

**6.4 Remittance of Proceeds.** Except as otherwise provided in Section 6.3(c), deliver, in kind, all proceeds arising from the disposition of any Collateral to Bank in the original form in which received by Borrower not later than the following Business Day after receipt by Borrower, to be applied to the Obligations (a) prior to an Event of Default, pursuant to the terms of Section 6.3(c) hereof, and (b) after the occurrence and during the continuance of an Event of Default, pursuant to the terms of Section 9.4 hereof; provided that, if no Event of Default has occurred and is continuing, Borrower shall not be obligated to remit to Bank the proceeds of the sale of worn out or obsolete Equipment disposed of by Borrower in good faith in an arm's length transaction for an aggregate purchase price of Twenty Five Thousand Dollars (\$25,000.00) or less (for all such transactions in any fiscal year). Borrower agrees that it will not commingle proceeds of Collateral with any of Borrower's other funds or property, but will hold such proceeds separate and apart from such other funds and property and in an express trust for Bank. Nothing in this Section 6.4 limits the restrictions on disposition of Collateral set forth elsewhere in this Agreement.

**6.5 Taxes; Pensions.** Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.9 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

**6.6 Access to Collateral; Books and Records.** At reasonable times, on one (1) Business Day's notice (provided no notice is required if an Event of Default has occurred and is continuing), Bank, or its agents, shall have the right to inspect the Collateral and the right to audit and copy Borrower's Books. The foregoing inspections and audits shall be conducted no more often than once every six (6) months unless an Event of Default has occurred and is continuing in which case such inspections and audits shall occur as often as Bank shall determine is necessary. The foregoing inspections and audits shall be conducted at Borrower's expense and the charge therefor shall be One Thousand Dollars (\$1,000.00) per person per day (or such higher amount as shall represent Bank's then-current standard charge for the same), plus reasonable out-of-pocket expenses. In the event Borrower and Bank schedule an audit more than ten (10) days in advance, and Borrower cancels or seeks to or reschedules the audit with less than ten (10) days written notice to Bank, then (without limiting any of Bank's rights or remedies) Borrower shall pay Bank a fee of One Thousand Dollars (\$1,000.00) plus any out-of-pocket expenses incurred by Bank to compensate Bank for the anticipated costs and expenses of the cancellation or rescheduling.

#### **6.7 Insurance.**

(a) Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with financially sound and reputable insurance companies that are not Affiliates of Borrower, and in amounts that are satisfactory to Bank. All property policies shall have a lender's loss payable endorsement showing Bank as lender loss payee. All liability policies shall show, or have endorsements showing, Bank as an additional insured. Bank shall be named as lender loss payee and/or additional insured with respect to any such insurance providing coverage in respect of any Collateral.

(b) Ensure that proceeds payable under any property policy are, at Bank's option, payable to Bank on account of the Obligations. Notwithstanding the foregoing, (a) so long as no Event of Default has occurred and is continuing, Borrower shall have the option of applying the proceeds of any casualty policy up to Fifty Thousand Dollars (\$50,000.00) in the aggregate with respect to any loss, toward the replacement or repair of destroyed or damaged property; provided that any such replaced or repaired property (i) shall be of equal or like value as the replaced or repaired Collateral and (ii) shall be deemed Collateral in which Bank has been granted a first priority security interest, and (b) after the occurrence and during the continuance of an Event of Default, all proceeds payable under such casualty policy shall, at the option of Bank, be payable to Bank on account of the Obligations.

(c) At Bank's request, Borrower shall deliver certified copies of insurance policies and evidence of all premium payments. Each provider of any such insurance required under this Section 6.7 shall agree, by endorsement upon the policy or policies issued by it or by independent instruments furnished to Bank, that it will give Bank thirty (30) days prior written notice before any such policy or policies shall be materially altered or

canceled. If Borrower fails to obtain insurance as required under this Section 6.7 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.7, and take any action under the policies Bank deems prudent.

#### 6.8 Accounts.

(a) Maintain its and its Subsidiaries', if any, primary depository, operating accounts and securities accounts with Bank and Bank's affiliates and a majority of Borrower's and its Subsidiaries' excess funds maintained at or invested through Bank or an Affiliate of Bank; provided, that Borrower and its Subsidiaries shall be permitted to maintain accounts at financial institutions other than Bank and Bank's Affiliates located outside the United States (collectively, the "**Foreign Accounts**"), so long as within fifteen (15) days after the aggregate book value (calculated in accordance with GAAP) of all such Foreign Accounts exceeds Five Hundred Thousand Dollars (\$500,000) (such excess being an "**Excess Foreign Account Balance**"), such Excess Foreign Account Balance is transferred to an account of Borrower maintained with Bank or an Affiliate of Bank.

(b) In addition to and without limiting the restrictions in (a), Borrower shall provide Bank five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank's Affiliates. For each Collateral Account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank. The provisions of the previous sentence shall not apply to the Foreign Accounts, deposit accounts exclusively used for payroll, payroll taxes, and other employee wage and benefit payments to or for the benefit of Borrower's employees and identified to Bank by Borrower as such.

#### 6.9 Financial Covenants.

Borrower shall maintain at all times, to be tested as of the last day of each month, unless otherwise indicated below:

(a) Tangible Net Worth. Borrower shall maintain a minimum Tangible Net Worth, tested quarterly, as of the last day of each fiscal quarter, of not less than (no worse than) the following amounts for each quarterly period listed below:

Quarterly Period Ending	Minimum Tangible Net Worth (tangible net loss no worse than)
December 31, 2015, March 31, 2016, June 30, 2016 and September 30, 2016	(\$ 22,500,000)
December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017	(\$ 23,500,000)
December 31, 2017 and March 31, 2018	(\$ 24,500,000)

(b) Liquidity Ratio. A Liquidity Ratio greater than 1.50:1.00.

#### **6.10 Protection and Registration of Intellectual Property Rights.**

(a) Borrower shall (i) protect, defend and maintain the validity and enforceability of its Intellectual Property; (ii) subject to applicable work product, common interest doctrine and attorney client privilege, promptly advise Bank in writing of material infringement actions, suits and proceedings involving its Intellectual Property, and provide Bank the opportunity to participate and consult with Borrower with respect to the direction thereof; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public (other than in the ordinary course of business, consistent with past practices and exercising reasonable business judgment) without Bank's written consent.

(b) If Borrower (i) obtains any Patent, registered Trademark, registered Copyright, registered mask work, or any pending application for any of the foregoing, whether as owner, licensee or otherwise, or (ii) applies for any Patent or the registration of any Trademark, then Borrower shall promptly provide written notice thereof to Bank and shall execute such intellectual property security agreements and other documents and take such other actions as Bank shall request in its good faith business judgment to perfect and maintain a first priority perfected security interest in favor of Bank in such property. If Borrower decides to register any Copyrights or mask works in the United States Copyright Office, Borrower shall: (x) provide Bank with at least fifteen (15) days prior written notice of Borrower's intent to register such Copyrights or mask works together with a copy of the application it intends to file with the United States Copyright Office (excluding exhibits thereto); (y) execute an intellectual property security agreement and such other documents and take such other actions as Bank may request in its good faith business judgment to perfect and maintain a perfected security interest in favor of Bank in the Copyrights or mask works intended to be registered with the United States Copyright Office; and (z) record such intellectual property security agreement with the United States Copyright Office contemporaneously with filing the Copyright or mask work application(s) with the United States Copyright Office. Borrower shall, within thirty (30) days after the end of each month, provide to Bank copies of all applications that it files for Patents or for the registration of Trademarks, together with evidence of the recording of the intellectual property security agreement as necessary for Bank to perfect and maintain a first priority security interest in such property.

(c) Borrower shall provide written notice to Bank within ten (10) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public). Borrower shall take such steps as Bank requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed "Collateral" and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License, whether now existing or entered into in the future, and (ii) Bank to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Bank's rights and remedies under this Agreement and the other Loan Documents.

**6.11 Litigation Cooperation.** From the date hereof and continuing through the termination of this Agreement, make available to Bank, without expense to Bank, Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank with respect to any Collateral or relating to Borrower.

#### **6.12 Online Banking.**

(a) Utilize Bank's online banking platform for all matters requested by Bank which shall include, without limitation (and without request by Bank for the following matters), uploading information pertaining to Accounts and Account Debtors, requesting approval for exceptions, requesting Credit Extensions, and uploading financial statements and other reports required to be delivered by this Agreement (including, without limitation, those described in Section 6.2 of this Agreement).

(b) Comply with the terms of the "Banking Terms and Conditions" and ensure that all persons utilizing the online banking platform are duly authorized to do so by an Administrator. Bank shall be entitled to assume the authenticity, accuracy and completeness on any information, instruction or request for a Credit Extension submitted via the online banking platform and to further assume that any submissions or requests made via the online banking platform have been duly authorized by an Administrator.



**6.13 Formation or Acquisition of Subsidiaries.** Notwithstanding and without limiting the negative covenants contained in Sections 7.3 and 7.7 hereof, at the time that Borrower or any Guarantor forms any direct or indirect Subsidiary or acquires any direct or indirect Subsidiary after the Effective Date, at Bank's request Borrower and such Guarantor shall (a) cause such new Subsidiary to provide to Bank a joinder to this Agreement to become a co-borrower hereunder or a guaranty to become a Guarantor hereunder, together with such appropriate financing statements and/or Control Agreements, all in form and substance satisfactory to Bank (including being sufficient to grant Bank a first priority Lien (subject to Permitted Liens) in and to the assets of such newly formed or acquired Subsidiary), (b) provide to Bank appropriate certificates and powers and financing statements, pledging all of the direct or beneficial ownership interest in such new Subsidiary, in form and substance satisfactory to Bank; and (c) provide to Bank all other documentation in form and substance satisfactory to Bank, including one or more opinions of counsel satisfactory to Bank, which in its opinion is appropriate with respect to the execution and delivery of the applicable documentation referred to above. Any document, agreement, or instrument executed or issued pursuant to this Section 6.13 shall be a Loan Document.

**6.14 Further Assurances.** Execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's Lien in the Collateral or to effect the purposes of this Agreement. Deliver to Bank, within five (5) days after the same are sent or received, copies of all correspondence, reports, documents and other filings with any Governmental Authority regarding compliance with or maintenance of Governmental Approvals or Requirements of Law or that could reasonably be expected to have a material effect on any of the Governmental Approvals or otherwise on the operations of Borrower or any of its Subsidiaries.

## **7 NEGATIVE COVENANTS**

Borrower shall not do any of the following without Bank's prior written consent:

**7.1 Dispositions.** Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of worn-out or obsolete Equipment that is, in the reasonable judgment of Borrower, no longer economically practicable to maintain or useful in the ordinary course of business of Borrower; (c) consisting of Permitted Liens and Permitted Investments; (d) consisting of the sale or issuance of any stock of Borrower permitted under Section 7.2 of this Agreement; and (e) consisting of Borrower's use or transfer of money or Cash Equivalents in the ordinary course of its business for the payment of ordinary course business expenses in a manner that is not prohibited by the terms of this Agreement or the other Loan Documents.

**7.2 Changes in Business, Management, Control, or Business Locations.** (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; (c) fail to provide notice to Bank of any Key Person departing from or ceasing to be employed by Borrower within five (5) days after such Key Person's departure from Borrower; or (d) permit or suffer any Change in Control.

Borrower shall not, without at least thirty (30) days prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than Ten Thousand Dollars (\$10,000.00) in Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Ten Thousand Dollars (\$10,000.00) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Ten Thousand Dollars (\$10,000.00) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which Borrower intends to deliver the Collateral, then Borrower will first receive the written consent of Bank, and such bailee shall execute and deliver a bailee agreement in form and substance satisfactory to Bank.

**7.3 Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person (including, without limitation, by the formation of any Subsidiary). A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

**7.4 Indebtedness.** Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

**7.5 Encumbrance.** Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, permit any Collateral not to be subject to the first priority security interest granted herein, or enter into any agreement, document, instrument or other arrangement (except with or in favor of Bank) with any Person which directly or indirectly prohibits or has the effect of prohibiting Borrower or any Subsidiary from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of Borrower's or any Subsidiary's Intellectual Property, except as is otherwise permitted in Section 7.1 hereof and the definition of "Permitted Liens" herein.

**7.6 Maintenance of Collateral Accounts.** Maintain any Collateral Account except pursuant to the terms of Section 6.8(b) hereof.

**7.7 Distributions; Investments.** (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock; provided that Borrower may (i) convert any of its convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) pay dividends solely in common stock; and (iii) repurchase the stock of former employees or consultants pursuant to stock repurchase agreements so long as an Event of Default does not exist at the time of any such repurchase and would not exist after giving effect to any such repurchase, provided that the aggregate amount of all such repurchases does not exceed Fifty Thousand Dollars (\$50,000.00) per fiscal year; or (b) directly or indirectly make any Investment (including, without limitation, by the formation of any Subsidiary) other than Permitted Investments, or permit any of its Subsidiaries to do so.

**7.8 Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

**7.9 Subordinated Debt.** (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof, provide for earlier or greater principal, interest, or other payments thereon, or adversely affect the subordination thereof to Obligations owed to Bank.

**7.10 Compliance.** Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

## **8 EVENTS OF DEFAULT**

Any one of the following shall constitute an event of default (an “**Event of Default**”) under this Agreement:

**8.1 Payment Default.** Borrower fails to (a) make any payment of principal or interest on any Credit Extension when due, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Revolving Line Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

**Covenant Default.** (a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.4, 6.5, 6.6, 6.7, 6.8, 6.9, 6.10, 6.13, 6.14, or violates any covenant in Section 7; or

**8.2** (b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement, any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Grace periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in subsection (a) above;

**8.3 Material Adverse Change.** A Material Adverse Change occurs;

**8.4 Attachment; Levy; Restraint on Business.**

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or of any entity under the control of Borrower (including a Subsidiary), or (ii) a notice of lien or levy is filed against any of Borrower’s assets by any Governmental Authority, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; or

(b) (i) any material portion of Borrower’s assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower from conducting all or any material part of its business;

**8.5 Insolvency.** (a) Borrower or any of its Subsidiaries is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower or any of its Subsidiaries begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower or any of its Subsidiaries and is not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

**8.6 Other Agreements.** There is, under any agreement to which Borrower or any Guarantor is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of Two Hundred Thousand Dollars (\$200,000.00); or (b) any breach or default by Borrower or Guarantor, the result of which could have a material adverse effect on Borrower’s or any Guarantor’s business;

**8.7 Judgments; Penalties.** One or more fines, penalties or final judgments, orders or decrees for the payment of money in an amount, individually or in the aggregate, of at least Two Hundred Thousand Dollars (\$200,000.00) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower by any Governmental Authority, and the same are not, within ten (10) days after the entry, assessment or issuance thereof, discharged, satisfied, or paid, or after execution thereof,

stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the satisfaction, payment, discharge, stay, or bonding of such fine, penalty, judgment, order or decree);

**8.8 Misrepresentations.** Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

**8.9 Subordinated Debt.** Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement or any applicable subordination or intercreditor agreement; or

**8.10 Governmental Approvals.** Any Governmental Approval shall have been (a) revoked, rescinded, suspended, modified in an adverse manner or not renewed in the ordinary course for a full term or (b) subject to any decision by a Governmental Authority that designates a hearing with respect to any applications for renewal of any of such Governmental Approval or that could result in the Governmental Authority taking any of the actions described in clause (a) above, and such decision or such revocation, rescission, suspension, modification or non-renewal (i) causes, or could reasonably be expected to cause, a Material Adverse Change, or (ii) adversely affects the legal qualifications of Borrower or any of its Subsidiaries to hold such Governmental Approval in any applicable jurisdiction and such revocation, rescission, suspension, modification or non-renewal could reasonably be expected to affect the status of or legal qualifications of Borrower or any of its Subsidiaries to hold any Governmental Approval in any other jurisdiction.

## **9 BANK'S RIGHTS AND REMEDIES**

**9.1 Rights and Remedies.** Upon the occurrence and during the continuance of an Event of Default, Bank may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) demand that Borrower (i) deposit cash with Bank in an amount equal to at least (A) one hundred five percent (105.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in Dollars remaining undrawn, and (B) one hundred ten percent (110.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in a Foreign Currency remaining undrawn (plus, in each case, all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment)), to secure all of the Obligations relating to such Letters of Credit, as collateral security for the repayment of any future drawings under such Letters of Credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all letter of credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit;

(d) terminate any FX Contracts;

(e) verify the amount of, demand payment of and performance under, and collect any Accounts and General Intangibles, settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, and notify any Person owing Borrower money of Bank's security interest in such funds. Borrower shall collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the Account Debtor, with proper endorsements for deposit;

(f) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(g) apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) amount held by Bank owing to or for the credit or the account of Borrower;

(h) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit;

(i) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(j) demand and receive possession of Borrower's Books; and

(k) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

**9.2 Power of Attorney.** Borrower hereby irrevocably appoints Bank as its lawful attorney-in-fact, exercisable following the occurrence of an Event of Default, to: (a) endorse Borrower's name on any checks, payment instruments, or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) demand, collect, sue, and give releases to any Account Debtor for monies due, settle and adjust disputes and claims about the Accounts directly with Account Debtors, and compromise, prosecute, or defend any action, claim, case, or proceeding about any Collateral (including filing a claim or voting a claim in any bankruptcy case in Bank's or Borrower's name, as Bank chooses); (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, or other claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and the Loan Documents have been terminated. Bank's foregoing appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and the Loan Documents have been terminated.

**9.3 Protective Payments.** If Borrower fails to obtain the insurance called for by Section 6.7 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document or which may be required to preserve the Collateral, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Bank will make reasonable efforts to provide Borrower with notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

**9.4 Application of Payments and Proceeds.** If an Event of Default has occurred and is continuing (or at any time on the terms set forth in Section 6.3(c), regardless of whether an Event of Default exists), Bank shall have the right to apply in any order any funds in its possession, whether from Borrower account balances, payments,

proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations. Bank shall pay any surplus to Borrower by credit to the Designated Deposit Account or to other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency. If Bank, directly or indirectly, enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.

**9.5 Bank's Liability for Collateral.** So long as Bank complies with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of Bank, Bank shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower bears all risk of loss, damage or destruction of the Collateral.

**9.6 No Waiver; Remedies Cumulative.** Bank's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election and shall not preclude Bank from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.

**9.7 Demand Waiver.** Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

## **10 NOTICES**

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower:

Stereotaxis, Inc.  
Stereotaxis International, Inc.  
c/o Stereotaxis, Inc.  
4320 Forest Park Avenue, Suite 100  
St. Louis, Missouri 63108  
Attn: Mr. Marty Stammer  
Fax: (314) 678-6110  
Email: [marty.stammer@stereotaxis.com](mailto:marty.stammer@stereotaxis.com)

If to Bank:

Silicon Valley Bank  
380 Interlocken Crescent, Suite 600  
Broomfield, Colorado 80021  
Attention: Paul D'Agrosa  
Facsimile No.: (303) 469-9088  
Email: [dagrosa@svb.com](mailto:dagrosa@svb.com)

with a copy to:

Riemer & Braunstein LLP  
Three Center Plaza  
Boston, Massachusetts 02108  
Attn: Michael R. Horner, Esquire  
Fax: (617) 880-3456  
Email: [mhorner@riemerlaw.com](mailto:mhorner@riemerlaw.com)

## **11 CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER**

Except as otherwise expressly provided in any of the Loan Documents, Illinois law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Chicago, Illinois; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

**TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.**

This Section 11 shall survive the termination of this Agreement.

## **12 GENERAL PROVISIONS**

**12.1 Termination Prior to Maturity Date; Survival.** All covenants, representations and warranties made in this Agreement shall continue in full force until this Agreement has terminated pursuant to its terms and all Obligations have been satisfied. So long as Borrower has satisfied the Obligations (other than inchoate indemnity obligations, and any other obligations which, by their terms, are to survive the termination of this Agreement, and any Obligations under Bank Services Agreements that are cash collateralized in accordance with Section 4.1 of this Agreement), this Agreement may be terminated prior to the Revolving Line Maturity Date by Borrower, effective three (3) Business Days after written notice of termination is given to Bank and after payment of any applicable termination fee as described in Section 2.5(b). Those obligations that are expressly specified in this Agreement as surviving this Agreement's termination shall continue to survive notwithstanding this Agreement's termination.

**12.2 Successors and Assigns.** This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents.

**12.3 Indemnification.** Borrower agrees to indemnify, defend and hold Bank and its directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank (each, an "**Indemnified Person**") harmless against: (i) all obligations, demands, claims, and liabilities (collectively, "**Claims**") claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (ii) all

losses or expenses (including Bank Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions between Bank and Borrower (including reasonable attorneys' fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person's gross negligence or willful misconduct.

This Section 12.3 shall survive until all statutes of limitation with respect to the Claims, losses, and expenses for which indemnity is given shall have run.

**12.4 Time of Essence.** Time is of the essence for the performance of all Obligations in this Agreement.

**12.5 Severability of Provisions.** Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

**12.6 Correction of Loan Documents.** Bank may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties.

**12.7 Amendments in Writing; Waiver; Integration.** No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents.

**12.8 Counterparts.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

**12.9 Confidentiality.** In handling any confidential information, Bank shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (such Subsidiaries and Affiliates, together with Bank, collectively, "**Bank Entities**"); (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, Bank shall use commercially reasonable efforts to obtain any prospective transferee's or purchaser's agreement to the terms of this provision); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. Confidential information does not include information that is either: (i) in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain (other than as a result of its disclosure by Bank in violation of this Agreement) after disclosure to Bank; or (ii) disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

Bank Entities may use anonymous forms of confidential information for aggregate datasets, for analyses or reporting, and for any other uses not expressly prohibited in writing by Borrower. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

**12.10 Attorneys' Fees, Costs and Expenses.** In any action or proceeding between Borrower and Bank arising out of or relating to the Loan Documents, Bank shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.



**12.11 Electronic Execution of Documents.** The words “execution,” “signed,” “signature” and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

**12.12 Right of Setoff.** Borrower hereby grants to Bank a Lien and a right of setoff as security for all Obligations to Bank, whether now existing or hereafter arising upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity under the control of Bank (including a subsidiary of Bank) or in transit to any of them. At any time after the occurrence and during the continuance of an Event of Default, without demand or notice, Bank may setoff the same or any part thereof and apply the same to any liability or Obligation of Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

**12.13 Captions.** The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

**12.14 Construction of Agreement.** The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

**12.15 Relationship.** The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm’s-length contract.

**12.16 Third Parties.** Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

**12.17 Borrower Liability.** Any Borrower may, acting singly, request Credit Extensions hereunder. Each Borrower hereby appoints each other as agent for the other for all purposes hereunder, including with respect to requesting Credit Extensions hereunder. Each Borrower hereunder shall be jointly and severally obligated to repay all Credit Extensions made hereunder, regardless of which Borrower actually receives said Credit Extension, as if each Borrower hereunder directly received all Credit Extensions. Each Borrower waives (a) any suretyship defenses available to it under the Code or any other applicable law, and (b) any right to require Bank to: (i) proceed against any Borrower or any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Bank may exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Borrower’s liability. Notwithstanding any other provision of this Agreement or other related document, each Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating Borrower to the rights of Bank under this Agreement) to seek contribution, indemnification or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section 12.17 shall be null and void. If any payment is made to a Borrower in contravention of this Section 12.17, such Borrower shall hold such payment in trust for Bank and such payment shall be promptly delivered to Bank for application to the Obligations, whether matured or unmatured.

**12.18 Reaffirmation of Stock Pledge Agreement.** Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and conditions of the Stock Pledge Agreement, dated as of November 30, 2011, including any exhibits and/or schedules attached thereto, and Borrower's rights and obligations arising under such Stock Pledge Agreement. Borrower acknowledges, confirms and agrees that: (i) the Stock Pledge Agreement shall remain in full force and effect and shall in no way be limited by the execution of this Agreement or any other Loan Document, (ii) each reference in the Stock Pledge Agreement to the "Loan Agreement" shall mean the Prior Loan Agreement as amended and restated by this Agreement, and (iii) any "Pledged Collateral" pledged to Bank under the Stock Pledge Agreement shall continue to secure the repayment in full of the Obligations, as defined herein

**12.19 No Novation.** Borrower and Bank hereby agree that, effective upon the execution and delivery of this Agreement by each such party, the terms and provisions of the Prior Loan Agreement shall be and hereby are amended, restated and superseded in their entirety by the terms and provisions of this Agreement. Nothing herein contained shall be construed as a substitution or novation of the obligations of Borrower outstanding under the Prior Loan Agreement or instruments securing the same, which obligations shall remain in full force and effect, except to the extent that the terms thereof are modified hereby or by instruments executed concurrently herewith. Nothing expressed or implied in this Agreement shall be construed as a release or other discharge of any Borrower from any of the Obligations or any liabilities under the Prior Loan Agreement or any of the security agreements, pledge agreements, mortgages, guaranties or other Loan Documents executed in connection therewith. Each Borrower hereby (i) confirms and agrees that each Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the Effective Date all references in any such Loan Document to the "Loan and Security Agreement", the "Loan Agreement" the "Agreement", "thereto", "thereof", "thereunder" or words of like import referring to the Prior Loan Agreement shall mean the Prior Loan Agreement as amended and restated by this Agreement; and (ii) confirms and agrees that to the extent that the Prior Loan Agreement or any Loan Document executed in connection therewith purports to assign or pledge to the Bank, or to grant to the Bank a security interest in or lien on, any collateral as security for the Obligations of Borrower or any guarantor from time to time existing in respect of the Prior Loan Agreement, such pledge, assignment or grant of the security interest or lien is hereby ratified and confirmed in all respects and shall remain effective as of the first date it became effective.

### **13 DEFINITIONS**

**13.1 Definitions.** As used in the Loan Documents, the word "shall" is mandatory, the word "may" is permissive, the word "or" is not exclusive, the words "includes" and "including" are not limiting, and the singular includes the plural. As used in this Agreement, the following capitalized terms have the following meanings:

**"Account"** is, as to any Person, any **"account"** of such Person as "account" is defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to such Person.

**"Account Debtor"** is any **"account debtor"** as defined in the Code with such additions to such term as may hereafter be made.

**"Administrator"** is an individual that is named:

(a) as an "Administrator" in the "SVB Online Services" form completed by Borrower with the authority to determine who will be authorized to use SVB Online Services (as defined in the "Banking Terms and Conditions") on behalf of Borrower; and

(b) as an Authorized Signer of Borrower in an approval by the Board.

**"Advance"** or **"Advances"** means a revolving credit loan (or revolving credit loans) under the Revolving Line.

**"Affiliate"** is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members. For purposes of the definition of Eligible Accounts, Affiliate shall include a Specified Affiliate.

“**Agreement**” is defined in the preamble hereof.

“**Authorized Signer**” is any individual listed in Borrower’s Borrowing Resolution who is authorized to execute the Loan Documents, including making (and executing if applicable) any Credit Extension request, on behalf of Borrower.

“**Availability Amount**” is (a) the lesser of (i) the Revolving Line or (ii) the amount available under the Borrowing Base minus (b) the outstanding principal balance of any Advances.

“**Bank**” is defined in the preamble hereof.

“**Bank Expenses**” are all audit fees and expenses, costs, and expenses (including reasonable attorneys’ fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower or any Guarantor.

“**Bank Services**” are any products, credit services, and/or financial accommodations previously, now, or hereafter provided to Borrower or any of its Subsidiaries by Bank or any Bank Affiliate, including, without limitation, any letters of credit, cash management services (including, without limitation, merchant services, direct deposit of payroll, business credit cards, and check cashing services), interest rate swap arrangements, and foreign exchange services as any such products or services may be identified in Bank’s various agreements related thereto (each, a “**Bank Services Agreement**”).

“**Bank Services Agreement**” is defined in the definition of Bank Services.

“**Biosense**” means Biosense Webster, Inc. a California corporation.

“**Biosense Agreement**” means that certain Development Alliance and Supply Agreement between Stereotaxis, Inc. and Biosense, dated as of May 7, 2002, as amended by (i) the Amendment to Development and Supply Agreement, dated November 3, 2002, between Stereotaxis and Biosense; (ii) the research and development side letter, dated November 3, 2003, between Stereotaxis and Biosense; (iii) the Alliance Expansion Agreement, dated May 4, 2007, between Stereotaxis and Biosense; (iv) the four side letters, each dated May 4, 2007, between Stereotaxis and Biosense; (v) the Second Amendment to Development Alliance and Supply Agreement, dated July 18, 2008, between Stereotaxis and Biosense; (vi) the Third Amendment to Development Alliance and Supply Agreement, dated December 8, 2009, between Stereotaxis and Biosense; (vii) the Fourth Amendment to Development Alliance and Supply Agreement, dated May 1, 2010, between Stereotaxis and Biosense; (viii) the Fifth Amendment to Development Alliance and Supply Agreement, dated July 30, 2010, between Stereotaxis and Biosense; (ix) the Sixth Amendment and Catheter and Mapping System Extension to Development Alliance and Supply Agreement, dated December 17, 2010, between Stereotaxis and Biosense and (x) the Seventh Amendment to the Development Alliance and Supply Agreement, dated as of November 30, 2011, between Stereotaxis and Biosense (as so amended, and as amended, amended and restated, supplemented or otherwise modified from time to time after the date hereof in accordance with the terms thereof).

“**Board**” is Borrower’s board of directors.

“**Borrower**” is defined in the preamble hereof.

“**Borrower’s Books**” are all Borrower’s books and records including ledgers, federal and state tax returns, records regarding Borrower’s assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

**“Borrowing Base”** is (a) without duplication, eighty-five percent (85%) of Eligible Accounts plus (b) the lesser of (i) forty percent (40%) of the value of Borrower’s Eligible Inventory (valued at the lower of cost or wholesale fair market value) or (ii) One Million Five Hundred Thousand Dollars (\$1,500,000.00); provided, that at no time shall outstanding Advances based on Eligible Inventory exceed forty percent (40%) of the total outstanding or requested Advances under the Revolving Line. The foregoing amounts will in each case be determined by Bank from Borrower’s most recent Borrowing Base Report (and as may subsequently be updated by Bank based upon information received by Bank including, without limitation, Accounts that are paid and/or billed following the date of the Borrowing Base Report); provided, however, that Bank has the right to decrease the foregoing amounts and/or percentages in its good faith business judgment to mitigate the impact of events, conditions, contingencies, or risks which may adversely affect the Collateral or its value.

**“Borrowing Base Report”** is that certain report of the value of certain Collateral in the form specified by Bank to Borrower from time to time.

**“Borrowing Resolutions”** are, with respect to any Person, those resolutions adopted by such Person’s board of directors (and, if required under the terms of such Person’s Operating Documents, stockholders) and delivered by such Person to Bank approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its secretary on behalf of such Person certifying (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that set forth as a part of or attached as an exhibit to such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents, including making (and executing if applicable) any Credit Extension request, on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Bank may conclusively rely on such certificate unless and until such Person shall have delivered to Bank a further certificate canceling or amending such prior certificate.

**“Business Day”** is any day that is not a Saturday, Sunday or a day on which Bank is closed.

**“Cash Collateral Account”** is defined in Section 6.3(c).

**“Cash Equivalents”** means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.; (c) Bank’s certificates of deposit issued maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

**“Change in Control”** means (a) at any time, any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), shall become, or obtain rights (whether by means of warrants, options or otherwise) to become, the “beneficial owner” (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of twenty-five percent (25%) or more of the ordinary voting power for the election of directors of Borrower (determined on a fully diluted basis) other than by the sale of Borrower’s equity securities in a public offering or to venture capital or private equity investors so long as Borrower identifies to Bank the venture capital or private equity investors at least seven (7) Business Days prior to the closing of the transaction and provides to Bank a description of the material terms of the transaction; (b) during any period of twelve (12) consecutive months, a majority of the members of the board of directors or other equivalent governing body of Borrower cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body; or (c) at any time, Borrower shall cease to own and control, of record and beneficially, directly or indirectly, one hundred percent (100.0%) of each class of outstanding capital stock of each Subsidiary of Borrower free and clear of all Liens (except Liens created by this Agreement).

“**Claims**” is defined in Section 12.3.

“**Code**” is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of Illinois; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Bank’s Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of Illinois, the term “Code” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

“**Collateral**” is any and all properties, rights and assets of Borrower described on Exhibit A.

“**Collateral Account**” is any Deposit Account, Securities Account, or Commodity Account.

“**Commodity Account**” is any “commodity account” as defined in the Code with such additions to such term as may hereafter be made.

“**Compliance Certificate**” is that certain certificate in the form attached hereto as Exhibit B.

“**Contingent Obligation**” is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but “Contingent Obligation” does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“**Control Agreement**” is any control agreement entered into among the depository institution at which Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower maintains a Securities Account or a Commodity Account, Borrower, and Bank pursuant to which Bank obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

“**Copyrights**” are any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

“**Credit Extension**” is any Advance, any Overadvance, or any other extension of credit by Bank for Borrower’s benefit.

“**Currency**” is coined money and such other banknotes or other paper money as are authorized by law and circulate as a medium of exchange.

“**Default Rate**” is defined in Section 2.4(b).

“**Deferred Revenue**” is all amounts received or invoiced in advance of performance under contracts and not yet recognized as revenue.

“**Deposit Account**” is any “**deposit account**” as defined in the Code with such additions to such term as may hereafter be made.

**“Designated Deposit Account”** is the account number ending 370 (last three digits) maintained by Borrower with Bank (provided, however, if no such account number is included, then the Designated Deposit Account shall be any deposit account of Borrower maintained with Bank as chosen by Bank).

**“Dollars,” “dollars”** or use of the sign “\$” means only lawful money of the United States and not any other currency, regardless of whether that currency uses the “\$” sign to denote its currency or may be readily converted into lawful money of the United States.

**“Dollar Equivalent”** is, at any time, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in a Foreign Currency, the equivalent amount therefor in Dollars as determined by Bank at such time on the basis of the then-prevailing rate of exchange in San Francisco, California, for sales of the Foreign Currency for transfer to the country issuing such Foreign Currency.

**“Effective Date”** is defined in the preamble hereof.

**“Eligible Accounts”** means Accounts owing to Borrower which arise in the ordinary course of Borrower’s business that meet all Borrower’s representations and warranties in Section 5.3, that have been, at the option of Bank, confirmed in accordance with Section 6.3(f) of this Agreement, and are due and owing from Account Debtors deemed creditworthy by Bank in its good faith business judgment. Bank reserves the right upon notice to Borrower at any time after the Effective Date to adjust any of the criteria set forth below and to establish new criteria in its good faith business judgment. Unless Bank otherwise agrees in writing, Eligible Accounts shall not include:

- (a) Accounts (i) for which the Account Debtor is Borrower’s Affiliate, officer, employee, investor, or agent, or (ii) that are intercompany Accounts;
- (b) Accounts that the Account Debtor has not paid within one hundred twenty (120) days of invoice date regardless of invoice payment period terms;
- (c) Accounts with credit balances over one hundred twenty (120) days from invoice date;
- (d) Accounts owing from an Account Debtor if fifty percent (50%) or more of the Accounts owing from such Account Debtor have not been paid within one hundred twenty (120) days of invoice date;
- (e) Accounts owing from an Account Debtor (i) which does not have its principal place of business in the United States or Canada, or (ii) whose billing address (as set forth in the applicable invoice for such Account) is not in the United States or Canada, in each case except for Eligible Foreign Accounts;
- (f) Accounts billed from and/or payable to Borrower outside of the United States (sometimes called foreign invoiced accounts);
- (g) Accounts in which Bank does not have a first priority, perfected security interest under all applicable laws;
- (h) Accounts billed and/or payable in a Currency other than Dollars;
- (i) Accounts owing from an Account Debtor to the extent that Borrower is indebted or obligated in any manner to the Account Debtor (as creditor, lessor, supplier or otherwise - sometimes called “contra” accounts, accounts payable, customer deposits or credit accounts);
- (j) Accounts with or in respect of accruals for marketing allowances, incentive rebates, price protection, cooperative advertising and other similar marketing credits, unless otherwise approved by Bank in writing;

- (k) Accounts owing from an Account Debtor which is a United States government entity or any department, agency, or instrumentality thereof unless Borrower has assigned its payment rights to Bank and the assignment has been acknowledged under the Federal Assignment of Claims Act of 1940, as amended;
- (l) Accounts with customer deposits and/or with respect to which Borrower has received an upfront payment, to the extent of such customer deposit and/or upfront payment;
- (m) Accounts for demonstration or promotional equipment, or in which goods are consigned, or sold on a “sale guaranteed”, “sale or return”, “sale on approval”, or other terms if Account Debtor’s payment may be conditional;
- (n) Accounts owing from an Account Debtor where goods or services have not yet been rendered to the Account Debtor (sometimes called memo billings or pre-billings);
- (o) Accounts subject to contractual arrangements between Borrower and an Account Debtor where payments shall be scheduled or due according to completion or fulfillment requirements (sometimes called contracts accounts receivable, progress billings, milestone billings, or fulfillment contracts);
- (p) Accounts owing from an Account Debtor the amount of which may be subject to withholding based on the Account Debtor’s satisfaction of Borrower’s complete performance (but only to the extent of the amount withheld; sometimes called retainage billings);
- (q) Accounts subject to trust provisions, subrogation rights of a bonding company, or a statutory trust;
- (r) Accounts owing from an Account Debtor that has been invoiced for goods that have not been shipped to the Account Debtor unless Bank, Borrower, and the Account Debtor have entered into an agreement acceptable to Bank wherein the Account Debtor acknowledges that (i) it has title to and has ownership of the goods wherever located, (ii) a bona fide sale of the goods has occurred, and (iii) it owes payment for such goods in accordance with invoices from Borrower (sometimes called “bill and hold” accounts);
- (s) Accounts for which the Account Debtor has not been invoiced;
- (t) Accounts that represent non-trade receivables or that are derived by means other than in the ordinary course of Borrower’s business;
- (u) Accounts for which Borrower has permitted Account Debtor’s payment to extend beyond one hundred twenty (120) days (including Accounts with a due date that is more than one hundred twenty (120) days from invoice date);
- (v) Accounts arising from chargebacks, debit memos or other payment deductions taken by an Account Debtor;
- (w) Accounts arising from product returns and/or exchanges (sometimes called “warranty” or “RMA” accounts);
- (x) Accounts in which the Account Debtor disputes liability or makes any claim (but only up to the disputed or claimed amount), or if the Account Debtor is subject to an Insolvency Proceeding (whether voluntary or involuntary), or becomes insolvent, or goes out of business;
- (y) Accounts owing from an Account Debtor with respect to which Borrower has received Deferred Revenue (but only to the extent of such Deferred Revenue);

(z) Accounts owing from an Account Debtor, whose total obligations to Borrower exceed twenty-five percent (25.0%) of all Accounts, for the amounts that exceed that percentage, unless Bank approves in writing;

(aa) [reserved]; and

(bb) Accounts for which Bank in its good faith business judgment determines collection to be doubtful, including, without limitation, accounts represented by “refreshed” or “recycled” invoices.

“**Eligible Foreign Accounts**” means Accounts that are otherwise Eligible Accounts the Account Debtor for which has a principal place of business in any of Germany, France, Spain, United Kingdom, Netherlands, Japan, China, Switzerland, Portugal, Austria, Hungary, Hong Kong, South Korea, Denmark, South Africa, Finland, Norway, Belgium, Lithuania, Australia, Israel, Sweden, Czech Republic, Japan, and Turkey.

“**Eligible Inventory**” means Inventory that meets all of Borrower’s representations and warranties in Section 5.3 and is otherwise acceptable to Bank in all respects.

“**Equipment**” is all “**equipment**” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“**ERISA**” is the Employee Retirement Income Security Act of 1974, and its regulations.

“**Event of Default**” is defined in Section 8.

“**Exchange Act**” is the Securities Exchange Act of 1934, as amended.

“**Foreign Accounts**” is defined in Section 6.8(a).

“**Foreign Currency**” means lawful money of a country other than the United States.

“**Funding Date**” is any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

“**FX Contract**” is any foreign exchange contract by and between Borrower and Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency on a specified date.

“**GAAP**” is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

“**General Intangibles**” is all “general intangibles” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

“**Governmental Approval**” is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.



**“Governmental Authority”** is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

**“Guarantor”** is any Person providing a Guaranty in favor of Bank.

**“Indebtedness”** is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations, and (d) Contingent Obligations.

**“Indemnified Person”** is defined in Section 12.3.

**“Insolvency Proceeding”** is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

**“Intellectual Property”** means, with respect to any Person, all of such Person’s right, title, and interest in and to the following:

- (a) its Copyrights, Trademarks and Patents;
- (b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how and operating manuals;
- (c) any and all source code;
- (d) any and all design rights which may be available to such Person;
- (e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and
- (f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

**“International”** is defined in the preamble.

**“Inventory”** is all **“inventory”** as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

**“Investment”** is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

**“IP Agreement”** is that certain Amended and Restated Intellectual Property Security Agreement between Borrower and Bank dated as of the Effective Date, as may be amended, modified or restated from time to time.

**“Jointly Owned Intellectual Property”** is the Intellectual Property of Borrower described on Exhibit C hereto.

**“Key Person”** is each of Borrower’s Chief Financial Officer, who is Marty Stammer as of the Effective Date.

**“Letter of Credit”** is a standby or commercial letter of credit issued by Bank upon request of Borrower based upon an application, guarantee, indemnity, or similar agreement.

**“Lien”** is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

**“Liquidity Ratio”** is, as of any date of measurement, (X) the sum of (i) Borrower’s unrestricted cash at Bank plus (ii) Borrower’s Eligible Accounts divided by (Y) total outstanding Obligations of Borrower owed to Bank.

**“Loan Documents”** are, collectively, this Agreement and any schedules, exhibits, certificates, notices, and any other documents related to this Agreement, the IP Agreement, the Stock Pledge Agreement, any Bank Services Agreement, any subordination agreement, any note, or notes or guaranties executed by Borrower or any Guarantor, and any other present or future agreement by Borrower and/or any Guarantor with or for the benefit of Bank, all as amended, restated, or otherwise modified.

**“Material Adverse Change”** is (a) a material impairment in the perfection or priority of Bank’s Lien in the Collateral or in the value of such Collateral; (b) a material adverse change in the business, operations, or condition (financial or otherwise) of Borrower; (c) a material impairment of the prospect of repayment of any portion of the Obligations; or (d) Bank determines, based upon information available to it and in its reasonable judgment, that there is a reasonable likelihood that Borrower shall fail to comply with one or more of the financial covenants in Section 6 during the next succeeding financial reporting period.

**“Monthly Financial Statements”** is defined in Section 6.2(c).

**“Obligations”** are Borrower’s obligations to pay when due any debts, principal, interest, fees, Bank Expenses, any termination fee, the Unused Revolving Line Facility Fee, and other amounts Borrower owes Bank now or later, whether under this Agreement, the other Loan Documents, or otherwise, including, without limitation, all obligations relating to Bank Services and interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and to perform Borrower’s duties under the Loan Documents.

**“Operating Documents”** are, for any Person, such Person’s formation documents, as certified by the Secretary of State (or equivalent agency) of such Person’s jurisdiction of organization on a date that is no earlier than thirty (30) days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

**“Overadvance”** is defined in Section 2.3.

**“Patents”** means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

**“Payment Date”** is, with respect to Advances, the last calendar day of each month.

**“Perfection Certificate”** is defined in Section 5.1.

**“Permitted Indebtedness”** is:

- (a) Borrower’s Indebtedness to Bank under this Agreement and the other Loan Documents;
- (b) Indebtedness existing on the Effective Date which is shown on the Perfection Certificate;
- (c) Subordinated Debt;

(d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;

(e) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of "Permitted Liens" hereunder;

(f) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (e) above; provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

**"Permitted Investments"** are:

(a) Investments shown on the Perfection Certificate and existing on the Effective Date; and

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States or its agency or any state maturing within 1 year from its acquisition, (ii) commercial paper maturing no more than 1 year after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc., (iii) Bank's certificates of deposit issued maturing no more than 1 year after issue, and (iv) any other investments administered through the Bank.

**"Permitted Liens"** are:

(a) Liens existing on the Effective Date and shown on the Perfection Certificate or arising under this Agreement or other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, if they have no priority over any of Bank's security interests;

(c) purchase money Liens securing no more than One Hundred Thousand Dollars (\$100,000.00) in the aggregate amount outstanding (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) leases or subleases and non-exclusive licenses or sublicenses granted in the ordinary course of Borrower's business, if the leases, subleases, licenses and sublicenses permit granting Bank a security interest;

(e) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (d), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase.

**"Person"** is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

**"Prime Rate"** is the rate of interest per annum from time to time published in the money rates section of The Wall Street Journal or any successor publication thereto as the "prime rate" then in effect; provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement; and provided further that if such rate of interest, as set forth from time to time in the money rates section of The Wall Street Journal, becomes unavailable for any reason as determined by Bank, the "Prime Rate" shall mean the rate of interest per annum announced by Bank as its prime rate in effect at its principal office in the State of California (such Bank announced Prime Rate not being intended to be the lowest rate of interest charged by Bank in connection with extensions of credit to debtors); provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

**“Registered Organization”** is any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

**“Requirement of Law”** is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

**“Reserves”** means, as of any date of determination, such amounts as Bank may from time to time establish and revise in its good faith business judgment, reducing the amount of Advances and other financial accommodations which would otherwise be available to Borrower (a) to reflect events, conditions, contingencies or risks which, as determined by Bank in its good faith business judgment, do or may adversely affect (i) the Collateral or any other property which is security for the Obligations or its value (including without limitation any increase in delinquencies of Accounts), (ii) the assets, business or prospects of Borrower or any Guarantor, or (iii) the security interests and other rights of Bank in the Collateral (including the enforceability, perfection and priority thereof); or (b) to reflect Bank’s reasonable belief that any collateral report or financial information furnished by or on behalf of Borrower or any Guarantor to Bank is or may have been incomplete, inaccurate or misleading in any material respect; or (c) in respect of any state of facts which Bank determines constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default.

**“Responsible Officer”** is any of the Chief Executive Officer, President, Chief Financial Officer and Controller of Borrower.

**“Restricted License”** is any material license or other agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower’s interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with Bank’s right to sell any Collateral.

**“Revolving Line”** is an aggregate principal amount not to exceed Five Million Dollars (\$5,000,000.00) outstanding at any time.

**“Revolving Line Maturity Date”** is March 31, 2018.

**“SEC”** shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

**“Securities Account”** is any “securities account” as defined in the Code with such additions to such term as may hereafter be made.

**“Specified Affiliate”** is any Person (a) more than ten percent (10.0%) of whose aggregate issued and outstanding equity or ownership securities or interests, voting, non-voting or both, are owned or held directly or indirectly, beneficially or of record, by Borrower, and/or (ii) whose equity or ownership securities or interests representing more than ten percent (10.0%) of such Person’s total outstanding combined voting power are owned or held directly or indirectly, beneficially or of record, by Borrower.

**“Stereotaxis”** is defined in the preamble.

**“Stock Pledge Agreement”** is that certain Stock Pledge Agreement, dated as of November 30, 2011, by and between Bank and Stereotaxis.

**“Subordinated Debt”** is indebtedness incurred by Borrower subordinated to all of Borrower’s now or hereafter indebtedness to Bank (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Bank entered into between Bank and the other creditor), on terms acceptable to Bank.

“**Subsidiary**” is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

“**Tangible Net Worth**” is, on any date, the consolidated total assets of Borrower and its Subsidiaries, minus (b) any amounts attributable to (i) goodwill, (ii) intangible items including unamortized debt discount and expense, patents, trade and service marks and names, copyrights and capitalized research and development expenses (except prepaid expenses), (iii) notes, accounts receivable and other obligations owing to Borrower from its officers or other Affiliates, and (iv) reserves not already deducted from assets, minus (c) Total Liabilities, plus (d) mark-to-market liabilities established in accordance with GAAP as a result of non-cash, mark-to-market adjustments, of the value of warrants and other derivative liabilities of the Borrower.

“**Total Liabilities**” is, on any day, obligations that should, under GAAP, be classified as liabilities on Borrower’s consolidated balance sheet, including all Indebtedness, including, without limitation, all Credit Extensions.

“**Trademarks**” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

“**Transfer**” is defined in Section 7.1.

“**Unused Revolving Line Facility Fee**” is defined in Section 2.5(b).

[Signature page follows.]

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed as a sealed instrument under the laws of Illinois, as of the Effective Date.

**BORROWER:**

**STEREOTAXIS, INC.**

By /s/ Martin C. Stammer  
Name: Martin C. Stammer  
Title: Chief Financial Officer

**STEREOTAXIS INTERNATIONAL, INC.**

By /s/ Martin C. Stammer  
Name: Martin C. Stammer  
Title: President

**BANK:**

**SILICON VALLEY BANK**

By /s/ Michael McMahon  
Name: Michael McMahon  
Title: Director

[Signature page to Third Amended and Restated Loan and Security Agreement]

**EXHIBIT A - COLLATERAL DESCRIPTION**

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles, commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, fixtures, letter of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

all Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include more than sixty-five percent (65%) of the presently existing and hereafter arising issued and outstanding shares of capital stock owned by Borrower of any foreign Subsidiary which shares entitle the holder thereof to vote for directors or any other matter.

**EXHIBIT B  
COMPLIANCE CERTIFICATE**

TO: SILICON VALLEY BANK  
FROM: STEREOTAXIS, INC. and STEREOTAXIS INTERNATIONAL, INC.

Date:

The undersigned authorized officer of STEREOTAXIS, INC., a Delaware corporation and STEREOTAXIS INTERNATIONAL, INC., a Delaware corporation (collectively, jointly and severally, the “**Borrower**”) certifies that under the terms and conditions of the Third Amended and Restated Loan and Security Agreement between Borrower and Bank (as amended, the “**Agreement**”), (1) Borrower is in complete compliance for the period ending with all required covenants except as noted below, (2) there are no Events of Default, (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement, and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries, if any, relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank. Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with generally GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under “Complies” column.

<u>Reporting Covenant</u>	<u>Required</u>	<u>Complies</u>
Monthly financial statements with Compliance Certificate	Monthly within 30 days	Yes No
Annual financial statement (CPA Audited) + CC	FYE within 120 days	Yes No
10-Q, 10-K and 8-K	Within 5 days after filing with SEC	Yes No
A/R & A/P Agings, Deferred Revenue and Inventory Reports	Monthly within 30 days	Yes No
Borrowing Base Report (and an A/R ledger agings report together with any schedules related thereto and including any other information requested by Bank with respect to Borrower’s Accounts)	Monthly within 30 days and with each request for a Credit Extension	Yes No
Projections	Annually within 30 days prior to FYE	Yes No

The following Intellectual Property was registered after the Effective Date (if no registrations, state “None”)

<u>Financial Covenant</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>
<b>Maintain as indicated:</b>			
<b>Minimum Tangible Net Worth * (tested quarterly)</b>		\$	Yes No
<b>Minimum Liquidity Ratio (tested monthly)</b>	<b>1.50:1.00</b>	<b>:1.00</b>	Yes No

\* See Section 6.9(a) of the Loan Agreement



The following financial covenant analyses and information set forth in Schedule 1 attached hereto are true and accurate as of the date of this Certificate.

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

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STEREOTAXIS, INC.  
STEREOTAXIS INTERNATIONAL, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**BANK USE ONLY**

Received by: \_\_\_\_\_  
AUTHORIZED SIGNER

Date: \_\_\_\_\_

Verified: \_\_\_\_\_  
AUTHORIZED SIGNER

Date: \_\_\_\_\_

Compliance Status: Yes No

**Schedule 1 to Compliance Certificate**

**Financial Covenants of Borrower**

Dated:

**I. Tangible Net Worth (Section 6.9(a))**

Required: Borrower shall maintain a minimum Tangible Net Worth, tested quarterly, as of the last day of each fiscal quarter, of not less than (no worse than) the following amounts for each quarterly period listed below:

<b>Quarterly Period Ending</b>	<b>Minimum Tangible Net Worth (tangible net loss no worse than)</b>
December 31, 2015, March 31, 2016, June 30, 2016 and September 30, 2016	(\$ 22,500,000)
December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017	(\$ 23,500,000)
December 31, 2017 and March 31, 2018	(\$ 24,500,000)

Actual:

A. Consolidated total assets of Borrower and its Subsidiaries	\$ _____
B. Amounts attributable to Goodwill	\$ _____
C. Intangible items including unamortized debt discount and expense, patents, trade and service marks and names, copyrights and capitalized research and development expenses (except prepaid expenses)	\$ _____
D. Notes, accounts receivable and other obligations owing to Borrower from its officers or other Affiliates	\$ _____
E. Reserves not already deducted from assets	\$ _____
F. Intangible assets [line B plus line C plus line D plus line E]	\$ _____
G. All obligations that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness, including, without limitation, all Credit Extensions	\$ _____
H. Mark-to-market liabilities established in accordance with GAAP as a result of non-cash, mark-to-market adjustments, of the value of warrants and other derivative liabilities of the Borrower	\$ _____
I. TANGIBLE NET WORTH [line A minus line F minus line G plus line H]	\$ _____

Is line I equal to or greater than (no worse than) [\$\_\_\_\_\_]?

\_\_\_\_\_ No, not in compliance

\_\_\_\_\_ Yes, in compliance

II. **Liquidity Ratio** (Section 6.9(b))

Required: A Liquidity Ratio greater than 1.50:1.00.

Actual:

A.	Borrower's unrestricted cash at Bank	\$	_____
B.	Borrower's Eligible Accounts	\$	_____
C.	LIQUIDITY [line A plus line B]	\$	_____
D.	Total outstanding Obligations of Borrower owed to Bank	\$	_____
E.	LIQUIDITY RATIO [line C divided by line D]		__:1.00

Is line E greater than 1.50:1.00?

\_\_\_\_\_ No, not in compliance

\_\_\_\_\_ Yes, in compliance

**EXHIBIT C**

**JOINTLY OWNED INTELLECTUAL PROPERTY**

**1 JOINTLY OWNED PATENTS:**

- (a) US Pending 11/627406 – Jointly Owned with Baylis Medical Company, Inc., Ashwini Pandey, former employee of Stereotaxis is under obligation to assign interest and has not assigned to date [Issued as U.S. Patent No. 8,092,450]; and
- (b) US Patent No. 6834201 – Jointly Owned with Medical College of Virginia.

**2 OWNERSHIP INTEREST PENDING ASSIGNMENT:**

- (a) US Pending 12/643357 and Patent No. 7635342 – Former Stereotaxis employee Cam Habeger is under obligation to assign his interest, but has not yet made the assignment;
- (b) U.S. Patent No. 7,543,239 – Former Stereotaxis employee John Rausch is under obligation to assign his interest, but has not yet made the assignment.
- (c) U.S. Patent No. 7,540,288 – Former Stereotaxis employee John Rausch is under obligation to assign his interest, but has not yet made the assignment.
- (d) U.S. Patent No. 7,516,416 – Former Stereotaxis employee John Rausch is under obligation to assign his interest, but has not yet made the assignment.
- (e) U.S. Patent No. 7,540,866 – Former Stereotaxis employee John Rausch is under obligation to assign his interest, but has not yet made the assignment.
- (f) US Pending 11/874,892 – Collaborator has executed assignment documents, but they have not been recorded.
- (g) U.S. Patent No. 7,769,444 – Collaborator has executed assignment documents, but they have not been recorded.

**3 OTHER INTELLECTUAL PROPERTY RIGHTS**

Jointly owned intellectual property may be created under the agreements with Company listed below:

- (a) Product Integration, Supply and License Agreement between Company and IP Video Systems, Inc. dated December 12, 2007;
- (b) Amended and Restated Joint Development Agreement between Company and Phillips Medical Systems Nederland B.V. dated April 1, 2008;
- (c) Extended Collaboration Agreement between Company and Siemens Aktiengesellschaft Medical Solutions dated May 27, 2004, as amended on June 30, 2006;
- (d) Development, Manufacture and Supply Agreement between Company and I-Tek Medical Technologies, LLC, dated July 11, 2014; and

- (e) Consulting Services, License and RF Generator Manufacture and Supply Agreement between Company and Baylis Medical Company, Inc. dated June 29, 2010.

**4 AGREEMENTS BETWEEN BIOSENSE WEBSTER, INC. AND COMPANY**

- (a) Development Alliance and Supply Agreement, May 7, 2002;
- (b) Amendment to Development and Supply Agreement, November 3, 2002;
- (c) Alliance Expansion Agreement, May 4, 2007;
- (d) Second Amendment to the Development Alliance and Supply Agreement, July 18, 2008;
- (e) Third Amendment to the Development Alliance and Supply Agreement, December 21, 2009;
- (f) Fourth Amendment to the Development Alliance and Supply Agreement, May 1, 2010;
- (g) Fifth Amendment to the Development Alliance and Supply Agreement, July 30, 2010;
- (h) Sixth Amendment and Catheter Mapping System Extension to Development Alliance and Supply Agreement, December 17, 2010; and
- (i) Seventh Amendment to Development Alliance and Supply Agreement, December 5, 2011.

## Certification of Principal Executive Officer

I, David L. Fischel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stereotaxis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2017

/s/ David L. Fischel

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David L. Fischel  
Chief Executive Officer  
Stereotaxis, Inc.  
(Principal Executive Officer)

## Certification of Principal Financial Officer

I, Martin C. Stammer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stereotaxis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2017

/s/ Martin C. Stammer

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Martin C. Stammer  
Chief Financial Officer  
Stereotaxis, Inc.  
(Principal Financial Officer)

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Fischel, Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2017

/s/ David L. Fischel

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David L. Fischel  
Chief Executive Officer  
Stereotaxis, Inc.



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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin C. Stammer, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2017

/s/ Martin C. Stammer

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Martin C. Stammer  
Chief Financial Officer  
Stereotaxis, Inc.