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

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-50884

STEREOTAXIS, INC.

(Exact name of Registrant as Specified in its Charter)

DELAWARE	**94-3120386**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

4320 Forest Park Avenue
St. Louis, MO 63108
(Address of Principal Executive Offices including Zip Code)

(314) 678-6100
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, $.001 Par Value

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the registrants common stock held by non-affiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sales prices on the NASDAQ Global Market on June 30, 2007) was approximately $368 million.

The number of outstanding shares of the registrant's common stock on February 29, 2008 was 37,166,472.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's next Annual Meeting of Stockholders to be held on May 29, 2008 are incorporated by reference into Part III of this Form 10-K.

STEREOTAXIS, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K

PART I

ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K, including the sections entitled “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements. These statements relate to, among other things:

- our business strategy;
- our value proposition;
- the timing and status of review by our collaboration partner of manufacturing and design issues relating to our magnetic irrigated catheter;
- the timing and prospects for regulatory approval of our additional disposable interventional devices;
- our estimates regarding our capital requirements;
- the ability of physicians to perform certain medical procedures with our products safely, effectively and efficiently;
- the adoption of our products by hospitals and physicians;
- the market opportunity for our products, including expected demand for our products;
- our plans for hiring additional personnel; and
- any of our other plans, objectives, expectations and intentions contained in this annual report that are not historical facts.

These statements relate to future events or future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may”, “will”, “should”, “could”, “expects”, “plans”, “intends”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of such terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements are only predictions.

Factors that may cause our actual results to differ materially from our forward-looking statements include, among others, changes in general economic and business conditions and the risks and other factors set forth in “Item 1A—Risk Factors” and elsewhere in this annual report on Form 10-K.

Our actual results may be materially different from what we expect. We undertake no duty to update these forward-looking statements after the date of this annual report, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

OVERVIEW

We design, manufacture and market an advanced cardiology instrument control 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 important new therapeutic solutions and enhancing the efficiency and efficacy of existing catheter-based, or interventional, procedures. Our NIOBE® System allows physicians to more effectively navigate proprietary catheters, guidewires and other delivery devices, both our

own and those we are co-developing with strategic partners, through the blood vessels and chambers of the heart to treatment sites in order to effect treatment. This is achieved using computer-controlled, externally applied magnetic fields that precisely and directly govern the motion of the internal, or working, tip of the catheter, guidewire or other delivery device. We believe that our NIOBE System represents a revolutionary technology in the interventional lab, bringing precise remote digital instrument control and programmability to the interventional lab, and has the potential to become the standard of care for a broad range of complex cardiology procedures.

We believe that our NIOBE System is the only technology to be commercialized that allows remote, computerized control of catheters, guidewires and other delivery devices directly at their working tip. 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 with suboptimal therapeutic outcomes.

We began commercial shipments in 2003, following U.S. and European regulatory approval of the core components of the NIOBE System. As of December 31, 2007, we had sold and delivered 93 NIOBE Systems and had approximately $58 million of backlog, consisting of outstanding purchase orders and other commitments. Of the December 31, 2007 backlog, we do not expect more than about 50% to be recognized to revenue over the course of 2008. There can be no assurance that we will recognize revenue in any particular period or at all because some of our purchase orders and other commitments are subject to contingencies that are outside our control. These orders and commitments may be revised, modified or canceled, either by their express terms, as a result of negotiations or by project changes or delays. In addition, the sales cycle for the NIOBE System is lengthy and generally involves construction or renovation activities at customer sites. Consequently, revenues and/or orders resulting from sales of our NIOBE System can vary significantly from one reporting period to the next.

The NIOBE System is designed primarily for use by interventional electrophysiologists in the treatment of abnormal heart rhythms known as arrhythmias and by interventional cardiologists in the treatment of coronary artery disease. To date the preponderance of the Stereotaxis installations worldwide are intended for use in electrophysiology.

Our NIOBE System consists of the following proprietary components:

- our NIOBE magnetic navigation system, which utilizes permanent magnets to navigate catheters, guidewires and other delivery devices through complex paths in the blood vessels and chambers of the heart to carry out treatment;
- our NAVIGANT® advanced user interface, or physician control center, which physicians use to visualize and track procedures and to provide instrument control commands that govern the motion of the working tip of the catheter, guidewire or other delivery device; and
- our CARDIODRIVE® automated catheter advancement system, which is used to remotely advance and retract the catheter in the patient's heart.

The NIOBE System is designed to be used with our suite of interventional catheters, guidewires and other delivery devices, which we refer to as disposable interventional devices as further discussed below.

In addition to the NIOBE System and its components, Stereotaxis also has developed the ODYSSEY™ information management system, which consolidates the multiple sources of diagnostic and imaging information found in the interventional lab into a large-screen user interface with single mouse control, which can be connected via a private network line to other interventional labs or to a remote clinical call center. The ODYSSEY information management system 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 Odyssey's consolidated large screen single mouse control, and potential real-time access to networked call center support that we believe can improve clinical workflows and related efficiencies.

The NIOBE System is designed to be installed in both new and replacement interventional labs worldwide. Current and potential purchasers of our NIOBE System include leading research and academic hospitals as well as community and regional medical centers around the world.

We currently have regulatory clearance to market our NIOBE magnetic navigation system, our NAVIGANT advanced user interface, our CARDIODRIVE automated catheter advancement system, our ODYSSEY information management system and various disposable interventional devices in the U.S., Canada, Europe, and various other countries and we anticipate applying through Siemens and Biosense Webster to begin clinical trials in Japan in 2008.

We have alliances with each of Siemens AG Medical Solutions, Philips Medical Systems and Biosense Webster, a subsidiary of Johnson & Johnson. Through these alliances, we integrate our NIOBE System with Siemens' and Philips' market leading digital imaging and Biosense Webster's 3D catheter location sensing technology, and develop compatible disposable interventional devices, in order to continue to introduce new solutions to the interventional lab. The Siemens and Philips alliances provide for coordination of our sales and marketing efforts with those of our partners to facilitate co-placement of integrated systems. In addition, Siemens provides worldwide service for our integrated systems and we are in discussions with Philips to provide the same.

The core elements of our NIOBE System are protected by an extensive patent portfolio, as well as substantial know-how and trade secrets.

BACKGROUND

We have initially focused our clinical and commercial efforts on applications of the NIOBE System in electrophysiology procedures for the treatment of arrhythmias and in complex interventional cardiology procedures for the treatment of coronary artery disease.

The rhythmic beating of the heart results from the transmission of electrical impulses through the heart. When these electrical impulses are mistimed or uncoordinated, the heart fails to function properly, resulting in complications that can range from fatigue to stroke or death. Over four million people in the U.S. currently suffer from the resulting abnormal heart rhythms, which are known as arrhythmias.

Nearly half a million people die annually from coronary artery disease, a condition in which the formation of plaque in the coronary arteries obstructs the supply of blood to the heart, making this the leading cause of death in the U.S. Despite various attempts to reduce risk factors, each year over one million patients undergo interventional procedures in an attempt to open blocked vessels and another half a million patients undergo open heart surgery to bypass blocked coronary arteries.

Electrophysiology is a fast-growing clinical specialty focused on the treatment of cardiac arrhythmias which can occur in any chamber of the heart and typically treats patients with a combination of drug therapy and/or interventional catheter ablation of cardiac tissue to interrupt errant electrical signals.

Interventional cardiology and electrophysiology procedures have proven to be very effective at treating arrhythmias and coronary artery disease at sites accessible through the vasculature without the patient trauma, complications, recovery times and cost generally associated with open surgery. With the advent of drug-eluting stents, the number of potential patients who could benefit from interventional cardiology procedures has grown. However, major challenges associated with manual approaches to interventional cardiology and electrophysiology persist. In interventional cardiology, these challenges include difficulty in navigating the disposable interventional device through tortuous vasculature and crossing certain types of complex lesions to deliver drug-eluting stents to effect treatment. As a result, numerous patients who could be candidates for an interventional approach continue to be referred to bypass surgery. In electrophysiology, these challenges include

precisely navigating the tip of the mapping and ablation catheter to the treatment site on the heart wall and maintaining tissue contact throughout the cardiac cycle to effect treatment, and, for atrial fibrillation, performing complex ablations within the left atrium of the heart. A major limitation is the manual dexterity required to perform complex ablations. As a result, large numbers of patients are referred to palliative drug therapy that can have harmful side effects.

We believe the NIOBE System represents a revolutionary step in the trend toward highly effective, but less invasive, cardiac procedures. As the first technology to permit direct, computerized control of the working tip of a disposable interventional device, the NIOBE System enables physicians to perform cardiac procedures interventionally that historically would have been very difficult or impossible to perform in this way and has the potential to significantly improve both the efficiency and efficacy of these treatments.

CURRENT CHALLENGES IN THE CATH LAB

Although great strides have been made in manual device technology and in related manual interventional techniques, significant challenges remain that reduce interventional productivity and limit both the number of complex procedures and the types of diseases that can be treated manually. These challenges primarily involve the inherent mechanical limitations of manual instrument control and the lack of integration of the information systems used by physicians in the interventional lab as well as a significant amount of training and experience required to ensure proficiency. As a result, many complex cases in electrophysiology are treated with palliative drug therapy and many complex procedures in interventional cardiology are still referred to highly invasive bypass surgery.

Limitations of Instrument Control

Manually controlled catheters, guidewires and other delivery devices, even in the hands of the most skilled specialist, have inherent instrument control limitations. In traditional interventional procedures, the device is manually manipulated by the physician who twists and pushes the external end of the instrument in an iterative process to thread the instrument through often tortuous blood vessels or into the chambers of the heart to the treatment site. Manual control of the working tip becomes increasingly difficult as more turns are required to navigate the instrument to the treatment site, as the blood vessels to be navigated become smaller and less accessible or more blocked, and as greater precision is required to carry out therapy at the treatment site.

Lack of Integration of Information Systems

While sophisticated imaging, mapping and location-sensing systems have provided visualization for interventional procedures and allowed interventional physicians to treat more complex conditions, the substantial lack of integration of these information systems requires the physician to mentally integrate and process large quantities of information from different sources in real time during an interventional procedure. For example, a physician ablating heart tissue to eliminate an arrhythmia will often be required to mentally integrate information from a number of sources, including:

- real-time x-ray fluoroscopy images;
- a real-time location-sensing system providing the 3D location of the catheter tip;
- a pre-operative map of the electrical activity or anatomy of the patient’s heart;
- real-time recording of electrical activity of the heart; and
- temperature feedback from an ablation catheter.

Each of these systems displays data differently, requiring physicians to continuously reorient themselves to the different formats and displays as they shift their focus from one data source to the next while at the same time manually controlling the interventional instrument. Also, each of these information systems requires a separate control panel, which further reduces the efficiency of the procedure.

THE STEREOTAXIS VALUE PROPOSITION

The NIOBE System addresses the current challenges in the interventional lab by providing precise computerized control of the working tip of the interventional instrument and by integrating this control with the visualization and information systems used during interventional cardiology and electrophysiology procedures, on a cost justified basis. We believe that the NIOBE System is the only technology to be commercialized that allows remote, computerized control of disposable interventional devices directly at their working tip.

We believe that the NIOBE System will:

- *Expand the market by enabling new treatments for major diseases and enhancing the treatment of more complex existing cases*. Treatment of a number of major diseases, including chronic total occlusions and placement of bi-ventricular pacing devices and atrial fibrillation, is highly problematic using conventional wire and/or catheter-based techniques. Additionally, many patients with multi-vessel disease and certain complex arrhythmias, such as atrial fibrillation, are often referred to other more invasive or less curative therapies because of the difficulty in precisely and safely controlling the working tip of disposable interventional devices used to treat these complex cases interventionally. Because the NIOBE System provides precise, computerized control of the working tip of disposable interventional devices, we believe that it will potentially enable chronic total occlusions and atrial fibrillation to be treated interventionally on a much broader scale than today.
- *Improve outcomes by optimizing therapy. Difficulty in controlling the working tip of disposable interventional devices leads to sub-optimal results in many procedures.* Precise instrument control is necessary for treating a number of cardiac conditions. To treat arrhythmias, precise placement of an ablation catheter against a beating inner heart wall is necessary. To treat congestive heart failure, precise navigation within the coronary venous system for optimal placement of pacemaker leads is required. For coronary artery disease, precise and correct navigation and placement of expensive stents also have a significant impact on procedure costs and outcomes. We believe the NIOBE System can enhance procedure results by improving navigation of disposable interventional devices to treatment sites, and by effecting more precise treatments once these sites are reached.
- *Enhance hospital efficiency by reducing and standardizing procedure times, disposables utilization and staffing needs.* Interventional procedure times currently range from several minutes to many hours as physicians often engage in repetitive, “trial and error” maneuvers due to difficulties with manually controlling the working tip of disposable interventional devices. By reducing both navigation time and the time needed to carry out therapy at the target site, we believe that the NIOBE System can reduce complex interventional procedure times compared to manual procedures. We believe the NIOBE System can also reduce the variability in procedure times compared to manual methods. Greater standardization of procedure times allows for more efficient scheduling of interventional cases. We also believe that additional cost savings from the NIOBE System result from decreased use of multiple catheters and guidewires in procedures compared with manual methods and also from decreased staff requirements during procedures, which further enhances the rate of return to hospitals.
- *Enhance physician skill levels in order to improve the efficacy of complex cardiology procedures*. Training required for physicians to safely and effectively carry out manual interventional procedures typically takes years, over and above the training required to become a specialist in cardiology. This has led to a shortage of interventional physicians for more complex procedures. The NIOBE System can allow procedures that previously required the highest levels of manual dexterity and skill to be performed effectively by a broader range of interventionalists, with more standardized outcomes. In addition, interventional physicians can be trained to use the NIOBE System in a relatively short period of time. The NIOBE System can also be programmed to carry out sequences of complex navigation automatically further enhancing ease of use.
- *Improve patient and physician safety.* The NIOBE System has been used in more than 10,000 procedures and the incidence of all reported cardiovascular complications associated with the use of magnetic catheters for complex left-sided procedures stands at approximately 0.1%, representing what

we estimate to be a greater than 50-fold improvement over what has been reported by the Heart Rhythm Society for manual atrial fibrillation cases. Additionally, during conventional catheter-based procedures, both the physician, who stands by the patient table to manually control the catheter, and the patient are exposed to the potentially harmful x-ray fluoroscopy field. This exposure can be minimized by reducing procedure times. Reducing procedure times is also beneficial to the patient because of the direct correlation between complication rates and procedure length. The NIOBE System can further improve physician safety by enabling them to conduct procedures remotely from an adjacent control room, which reduces their exposure to harmful radiation.

We believe the ODYSSEY Information Management System will provide the capability to consolidate the multiple sources of diagnostic and imaging information found in the interventional labs into a large-screen user interface with single mouse control. It can also connect the lab to other sites within the hospital and, via a secure private network, to other ODYSSEY users worldwide as well as to the ODYSSEY Clinical Support Center, which provides the online clinical and technical support, and future connectivity to archiving. We believe ODYSSEY provides for improved clinical workflow and information management efficiency.

OVERVIEW OF THE NIOBE SYSTEM

Our proprietary NIOBE System provides the physician with precise remote digital instrument control through user friendly "point and click" computer mouse control, in combination with sophisticated image integration and 3-D reconstruction. It can be operated either from beside the patient table, as in traditional interventional procedures, or from a room adjacent to the patient and outside the x-ray fluoroscopy field. The NIOBE magnetic navigation system navigates disposable interventional devices to the treatment site through complex paths in the blood vessels and chambers of the heart to carry out treatment using computer controlled, externally applied magnetic fields to directly govern the motion of the working tip of these devices, each of which has a magnetically sensitive tip that predictably responds to magnetic fields generated by our system. Because the working tip of the disposable interventional device is directly controlled by these external magnetic fields, the physician has the same degree of control regardless of the number or type of turns, or the distance traveled, by the working tip to arrive at its position in the blood vessels or chambers of the heart, which results in highly precise digital control of the working tip of the disposable interventional device while still giving the physician the option to manually advance the catheter.

Through our alliances with Siemens, Philips and Biosense Webster, this precise digital instrument control has been integrated with the visualization and information systems used during interventional cardiology and electrophysiology procedures in order to provide the physician with a fully-integrated and automated information and instrument control system. We have integrated our NIOBE System with Siemens' digital x-ray fluoroscopy system, and with Philips' digital x-ray fluoroscopy system. In addition, we have integrated the NIOBE System with Biosense Webster's 3D catheter location sensing technology to provide accurate real-time information as to the 3D location of the working tip of the instrument, and with Biosense Webster's ablation tip technology. The combination of these technologies was fully launched in 2005.

The components of the NIOBE System are identified and described below:

SYSTEMS

NIOBE Magnetic Navigation System. Our NIOBE magnetic navigation system utilizes two permanent magnets mounted on articulating or pivoting arms that are enclosed within a stationary housing, with one magnet on either side of the patient table, inside the interventional lab. These magnets generate magnetic navigation fields that are less than 10% of the strength of fields typically generated by MRI equipment and therefore require significantly less shielding, and cause significantly less interference, than MRI equipment. The NIOBE System is indicated for use in cardiac, peripheral and neurovascular applications.

NAVIGANT Advanced User Interface. The NAVIGANT advanced user interface is an integrated information and control center that integrates the key information sources used by interventional cardiologists and electrophysiologists and allows these physicians to provide instrument control directions to precisely govern the motion of the working tip of disposable interventional devices.

The NAVIGANT advanced user interface consists of:

- configurable display screens located both next to the patient table inside the interventional labs and in the adjacent control room, outside the x-ray fluoroscopy field, that provide advanced visualization and information integration to the physician;
- sophisticated embedded device software and system control algorithms that are integrated with our disposable interventional devices to facilitate ease of use automation, and improved navigation of these devices;
- virtual catheter or mouse control which the physician uses to direct the motion of the working tip of the disposable interventional device, either from inside the interventional labs or from the adjacent control room; and
- a software package designed for interventional cardiology or electrophysiology, or both, as well as optional application software tailored for specific clinical procedures.

CARDIODRIVE Automated Catheter Advancement System. Where the physician is conducting the procedure from the adjacent control room, the CARDIODRIVE automated catheter advancement system is used to advance and retract the catheter in the patient's heart while the NIOBE magnets precisely steer the working tip of the device.

ODYSSEY Information Management System. The ODYSSEY Information Management System consolidates the multiple sources of diagnostic and imaging information found in the interventional labs into a networked large-screen user interface with single mouse control.

We have received regulatory marketing clearance, licensing and CE Mark approvals necessary for us to market the NIOBE magnetic navigation system, the NAVIGANT advanced user interface and the CARDIODRIVE automated catheter advancement system in the U.S., Canada, Europe and various other countries. We have received regulatory marketing clearance, licensing and CE Mark approvals necessary for us to market the ODYSSEY information management system in the U.S. and Europe and are in the process of obtaining necessary approvals in various other countries.

DISPOSABLES AND OTHER ACCESSORIES

Our system is designed to use a toolkit of proprietary disposable interventional devices. The toolkit currently consists of:

- our CARDIODRIVE automated catheter advancement disposable used to provide precise remote advancement of proprietary catheters.
- our suite of CRONUS®, ASSERT®, TITAN® and PEGASUS™ coronary guidewires suitable for use in interventional cardiology procedures for the introduction and placement of over-the-wire therapeutic devices, such as biventricular pacing leads used in cardiac resynchronization therapy for treating congestive heart failure as well as stents and angioplasty balloons;
- our TANGENT® electrophysiology mapping catheter used to locate aberrant electrical signals in the heart;
- our HELIOS II® electrophysiology ablation catheter used for certain arrhythmia treatments; and
- the CARTO® RMT navigation and ablation system, CELSIUS® RMT, NAVISTAR® RMT, NAVISTAR® RMT DS, and NAVISTAR® RMT THERMOCOOL® Irrigated Tip Diagnostic/Ablation Steerable Tip Catheters co-developed with Biosense Webster, as described below.

We have received FDA clearance, Canadian licensing and the CE Mark necessary for us to market our suite of CRONUS, ASSERT and TITAN coronary guidewires in the U.S., Canada and Europe. In addition, we have received FDA clearance for our TANGENT mapping catheter and our PEGASUS coronary guidewire in the U.S. and the CE Mark for our HELIOS II electrophysiology ablation catheter in Europe. In the U.S. we completed clinical trials with the HELIOS II in 2004 and filed for a PMA in 2005 for which we anticipate approval in 2008.

In March 2005, we announced the first commercial use of our NIOBE System with the CELSIUS RMT ablation catheter, the NAVISTAR RMT Diagnostic/Ablation Steerable Tip catheter and the CARTO® RMT navigation and ablation system in Europe. Biosense Webster received FDA approval in September 2005 for use in the U.S. of the CARTO® RMT navigation system with the NIOBE System. In December 2005, Biosense Webster received approval from the FDA for the CELSIUS RMT Diagnostic/Ablation Steerable Tip Catheter and in February 2006 Biosense Webster received FDA approval for the NAVISTAR RMT Diagnostic/Ablation Steerable Tip Catheter. These products are the first products to be commercialized pursuant to our strategic alliance with Biosense Webster. In May 2007 and January 2008 Biosense Webster received CE Mark and FDA approval, respectively, for the NAVISTAR RMT THERMOCOOL Irrigated Tip Catheter. We will continue to co-develop a range of ablation catheters that can be navigated with our system, with and without Biosense Webster's 3D catheter location sensing technology. We are also developing disposable interventional devices for other applications. In addition, we can utilize security keys, with embedded smart chips and associated software which allow our system to recognize specific disposable interventional devices in order to prevent unauthorized use of our system.

Currently, eight European centers and one Canadian center have participated in the external evaluation of our partnered magnetic irrigated catheter. We are currently reviewing the results of the external evaluation by our catheter partner in approximately 250 cases. However, on March 3, 2008, we announced that during the external evaluation phase of the launch of this catheter our catheter partner has identified a relatively small number of catheters that exhibited signs of char or coagulum formation. Although we have observed that changes in temperature setting and saline flow have largely resolved this issue in the clinical setting, our catheter partner has advised us that these characteristics are inconsistent with the product specifications. Consequently, they have informed us that they will be temporarily halting procedures done with magnetic irrigated catheters and will be delaying full commercialization until this issue is resolved. Our catheter partner has attributed this issue to inconsistencies with specifications and this information, together with the observations of our own engineers, leads us to believe the root cause may lie in the area of manufacturing conformance to specifications. However, we cannot assure you as to how long the review process will take and the length of time that would be required to address any issues identified in the review process.

We believe that we can adapt most disposable interventional devices for use with our system by using our proprietary technology to add an inexpensive micro-magnet at their working tip. This micro-magnet is activated by an external magnetic field, which allows interventional devices with tip dimensions as small as 14 thousandths (0.014) of an inch to be oriented and positioned in a predictable and controllable fashion. We believe this approach to bringing digital control to disposable interventional devices using embedded magnets can simplify the overall design of these devices because mechanical controls are no longer required.

CLINICAL APPLICATIONS

We have initially focused our clinical and commercial efforts on applications of the NIOBE System in electrophysiology procedures for the treatment of arrhythmias and in complex interventional cardiology procedures for the treatment of coronary artery disease. Our system potentially has broad applicability in other areas, such as interventional neurosurgery, interventional neuroradiology, peripheral vascular, pulmonology, urology, gynecology and gastrointestinal medicine, and our patent portfolio has been structured to permit expansion into these areas.

Electrophysiology

The rhythmic beating of the heart results from the transmission of electrical impulses through the heart. When these electrical impulses are mistimed or uncoordinated, the heart fails to function properly, resulting in complications that can range from fatigue to stroke or death. Over four million people in the U.S. currently suffer from the resulting abnormal heart rhythms, which are known as arrhythmias. The most common arrhythmia in adults is atrial fibrillation. This chaotic electrical activity of the top chambers of the heart is estimated to be present in over 3 million people in the United States. The incidence is expected to continue to rise as the population ages and life expectancy continues to increase. Atrial fibrillation is a major physical and economic burden. This arrhythmia is associated with stroke, heart failure, and adverse symptoms including fatigue and shortness of breath. The high prevalence of symptoms makes patients very motivated to seek treatment. The combination of symptoms, prevalence and co-morbidities make atrial fibrillation a major economic factor in healthcare. We believe payers are very interested in therapies that may reduce the financial impact.

Drug therapies for arrhythmias often fail to adequately control the arrhythmia and may have significant side effects. Consequently, physicians have increasingly sought more permanent, non-pharmacological, solutions for arrhythmias. The most common interventional treatment for arrhythmias, and in particular tachyarrhythmias, where the patient's heart rate is too high or irregular, is an ablation procedure in which the diseased tissue giving rise to the arrhythmia is isolated or destroyed. Prior to performing an electrophysiology ablation, a physician typically performs a diagnostic procedure in which the electrical signal patterns of the heart wall are "mapped" to identify the heart tissue generating the aberrant electrical signals. Following the mapping procedure, the physician may then use an ablation catheter to disable the aberrant signal or signal path, restoring the heart to its normal rhythm. In cases where an ablation is anticipated, physicians will choose an ablation catheter and perform both the mapping and ablation with the same catheter.

We believe the NIOBE System is particularly well-suited for those electrophysiology procedures which are time consuming or which can only be performed by highly experienced physicians. These procedures include:

- General Mapping and Ablations. For the more routine mapping and ablation procedures, our system offers the unique benefit of precise catheter movement and consistent heart wall contact. Additionally, the system can control the procedure and direct catheter movement from the control room, saving the physician time and helping to avoid unnecessary exposure to high doses of radiation.
- Atrial Fibrillation. The most commonly diagnosed abnormal heart rhythm, atrial fibrillation, is a particular type of arrhythmia characterized by rapid, disorganized contractions of the heart's upper chambers, the atria, which lead to ineffective heart pumping and blood flow and can be a major risk factor for stroke. The number of potential patients for manual catheter-based procedures for atrial fibrillation has been limited because the procedures are extremely complex and are performed by only the most highly skilled electrophysiologists. They also typically have much longer procedure times than general ablation cases and the success rates have been lower and more variable. We believe that our system can allow these procedures to be performed by a broader range of electrophysiologists and, by automating some of the more complex ablation routines, can standardize and reduce procedure times and significantly improve outcomes.
- Ventricular Tachycardia. Ventricular tachycardia is a malignant, potentially lethal arrhythmia that is extremely difficult and time consuming to treat by catheter ablation because of the mechanical force of a conventional catheter against the heart wall. The GentleTouch™ magnetic catheter has been characterized as the ideal tool for this application. These arrhythmias can often be modified or interrupted by the pressure of a conventional catheter making it very difficult to identify the appropriate location for the ablation, whereas magnetic catheters produce fewer extra beats and provide for easier and more efficient mapping of the diseased tissue. Successful ablation of ventricular tachycardia can extend the useful life of an implantable defibrillator, reduce the need for antiarrhythmic drugs or, in some cases, obviate the need for an expensive implantable device and its associate follow-up.

- Cardiac Resynchronization Therapy (CRT). Heart failure is a potentially fatal condition in which the heart muscle is damaged to the point that it is unable to provide adequate blood flow to the body. CRT, or bi-ventricular pacing, has shown promise in the treatment of heart failure in which the ventricles of the heart do not contract in a coordinated manner. The procedure used to carry out this therapy involves the placement of a pacemaker lead into the coronary venous system of the heart. Interventional treatment of this patient population is growing rapidly but the placement of the venous pacing lead with manual interventional technologies is highly challenging and time consuming. The unpredictability of procedure times also makes efficient interventional lab scheduling very difficult in these cases. There is growing evidence that lead placement can contribute to clinical outcomes, and we believe our system enhances the physician's ability to achieve optimal lead placements.

We believe that our system can address the current challenges in electrophysiology by permitting the physician to remotely navigate disposable interventional devices from a control room outside the x-ray field. Our system also allows for more predictable and efficient navigation of these devices to the treatment site, including the left atrium for atrial fibrillation procedures, and enables appropriate contact force to be maintained to efficiently apply energy on the wall of the beating heart. We also believe that our system will significantly lower the skill barriers required for physicians to perform complex electrophysiology procedures and, additionally, improve interventional lab efficiency and reduce disposable interventional device utilization.

Interventional Cardiology

Nearly half a million people die annually from coronary artery disease, a condition in which the formation of plaque in the coronary arteries obstructs the supply of blood to the heart, making this the leading cause of death in the U.S. Despite various attempts to reduce risk factors, each year over one million patients undergo interventional procedures in an attempt to open blocked vessels and another half a million patients undergo open heart surgery to bypass blocked coronary arteries.

Blockages within a coronary artery, often called lesions, are categorized by degree of obstruction as partial occlusions, non-chronic total occlusions and chronic total occlusions. Lesions are also categorized by the degree of difficulty with which they can be opened as simple or complex. If the blockage is in an easy to reach location, it can typically be treated by pushing a guidewire through the portion of the vessel that is blocked with plaque, expanding a small balloon to compress the plaque against the artery walls in order to open the artery, and then finally deploying a stent, which is a small metal scaffold, to help keep the artery open. If a blockage is located within tortuous vasculature, however, the physician must navigate the guidewire through a series of sharp turns, making the blockage very difficult to reach. Even if such lesions are reached, delivering a balloon or stent to the treatment site through tortuous anatomy can be difficult. In addition, complex lesions, such as chronic total occlusions, longer lesions, and lesions located within smaller diameter vessels, are often very difficult or time consuming to open with manual interventional techniques.

We estimate that approximately 15% of these interventional cardiology procedures currently being performed are complex and therefore require longer procedure times and may have sub-optimal outcomes. We believe that our system can substantially benefit this subset of complex interventional cardiology procedures, including procedures involving:

- Occlusions. Complex partial occlusions, complex non-chronic total occlusions and chronic total occlusions. Treatment of these complex lesions is generally more problematic due to the difficulty in steering and pushing a guidewire through them. Because our system provides precise computerized control of the working tip of a guidewire, it can enable physicians to more easily locate small openings in, and to advance a guidewire across, these lesions. The ability to cross complex lesions such as chronic total occlusions has grown increasingly important due to the effectiveness of drug eluting stents in treating these lesions. Since approximately one-fifth of patients referred to bypass surgery have chronic total occlusions, we believe a significant number of patients could be treated interventionally instead of surgically if more of these lesions could be opened for stenting.

- Tortuous Anatomy. Some interventional procedures require physicians to navigate a disposable interventional device through a series of sharp turns in the patient's vasculature. Navigating through tortuous anatomy using manual interventional techniques can be very time consuming and physicians often cannot reach the lesion or manipulate the balloon or stent across the lesion once it is reached. Because our system allows the working tip of disposable interventional devices to be precisely oriented regardless of the number of turns that have occurred, our technology allows physicians to more effectively navigate these devices through complex vasculature and deliver balloons and stents to treatment sites for therapy.
- Stent Placement. The likelihood of restenosis, or re-blockage of cleared arteries, is greatly increased in multi-vessel diseased patients whose blockages are typically more diffusely distributed throughout longer lengths of the vessel. As a result, these patients are often referred to invasive bypass surgery. We expect that drug-eluting stents, which reduce the likelihood of restenosis, may enable patients with more complex lesions to be treated interventionally rather than with bypass surgery. In order to treat this new group of patients, however, physicians will need to place stents in more challenging or remote locations. By using externally applied magnetic fields to precisely direct a stent through a patient's vasculature, we believe that our system allows these devices to be more easily navigated to these difficult to reach treatment sites.
    - Small Vessels. Based on our interpretation of various medical studies, we have determined that diabetic patients usually comprise about 20 to 30% of U.S. hospital's interventional procedure volume. These patients generally have smaller vessels, which often contain longer lesions with more diffusely distributed blockages, as well as tortuous anatomy, making guidewire navigation and stent delivery extremely difficult. We believe that these patients can benefit significantly from the improved disposable interventional device navigation enabled by our system.

Peripheral Vascular Disease (PAD)

It is estimated that PAD currently affects 8 to 12 million Americans, making it the third most prevalent disease in the United States. This number is expected to grow to over 17 million in 2010 and 22 million in 2020. It is primarily a disease of the elderly; roughly 20% of people over age the age of 70 suffer from it. With people living longer and increasingly indulging in unhealthy dietary habits, it is not difficult to account for the heightened prevalence of this disease.

PAD is associated with several significant co-morbidities. Atherosclerosis is a systemic condition; therefore, it affects the coronary arteries as well. A significant number of people with PAD also suffer from Coronary Artery Disease, which means that they are at serious risk of myocardial infarction, in addition to the consequences of PAD.

Stroke is also a common morbidity for people with PAD. If the carotid artery (the artery that supplies blood to the brain) becomes occluded, stroke can occur, leading to serious disability and possibly, death.

Diabetes mellitus is a very serious co-morbidity for PAD and diabetics are significantly more likely to have PAD compared with the general population. Additionally, having diabetes correlates to a poorer prognosis for PAD. PAD can progress to Critical Limb Ischemia (CLI), in which significant tissue death is taking place. Rest pain, ulcerations, and gangrene can result, requiring amputation of the affected limb.

Chronic Total Occlusions (CTO) are classified as blockages that completely obstruct the flow of blood through an artery for an extended period of time, usually 30 days or more. These blockages consist largely of plaque that has been deposited on the endothelium of the artery wall, and which over time has become calcified. The calcification makes the blockage very rigid, and causes the artery to lose elasticity. The artery's ability to contract and expand is thus diminished, resulting in a narrowing of the artery lumen and a reduction in the amount of blood than can flow through it. CTOs, which are often a factor in peripheral vascular disease, pose a

serious health risk and require a safe, effective method of treatment. We believe the NIOBE system can help overcome the significant challenges faced by clinicians in manually delivering guidewires and other devices across CTOs, by providing precise magnetic tip control in combination with 3-D image reconstruction of these complex vascular lesions.

Interventional Neuroradiology, Neurosurgery and Other Interventional Applications

Physicians used a predecessor to our NIOBE System to conduct a number of procedures for the treatment of brain aneurysms, a condition in which a portion of a blood vessel wall balloons and which can result in debilitating or fatal hemorrhagic strokes. Traditional treatment for brain aneurysms involves highly invasive open brain surgery. Interventional procedures have evolved for filling the aneurysm with platinum micro-coils delivered to the site in order to reduce blood flow within the aneurysm. We believe that the NIOBE System has the potential to be adapted for use in the interventional treatment of brain aneurysms, by enabling physicians to reach a broader range of aneurysm targets, and by making procedure times for these cases more predictable.

The NIOBE System also has a range of potential applications in minimally invasive neurosurgery, including biopsies and the treatment of tumors, treatment of vascular malformations and, when deliverables are commercialized by third parties, delivery of pharmacological compounds and deep brain stimulators. We have successfully conducted what we believe to be the first human surgical procedures ever conducted using computerized control in our neurosurgery program by navigating complex pathways through brain tissue to multiple target sites. The NIOBE System also has applicability in the respiratory, gastro-intestinal and genito-urinary systems, for diagnosis and treatment of diseases affecting the lungs, prostate, kidneys, colon and small intestine. We do not anticipate any significant revenue from these programs in the near term.

COLLABORATIONS

We have entered into collaborations with technology leaders in the global interventional market, including Siemens, Philips, and Biosense Webster that we believe will aid us in commercializing our NIOBE System. We believe our two imaging partners, Siemens and Philips, have a significant percentage of the installed base worldwide.

We believe that these collaboration arrangements are favorable to Stereotaxis because they:

- provide for the integration of our system with market leading digital imaging and 3D catheter location sensing technology, as well as disposable interventional devices;
- allow us to leverage the sales, distribution, service and maintenance expertise of our strategic partners; and
- enable operational flexibility by not requiring us to provide any of our strategic partners with a right of first refusal in the event that another party wants to acquire us or with board representation where a strategic partner has made a debt or equity investment in us.

Imaging Partners

Siemens Alliance. In June 2001, we entered into an alliance with Siemens, a global leader in interventional lab equipment sales, including x-ray fluoroscopy systems. Under this alliance, we successfully integrated our NIOBE System with Siemens' digital fluoroscopy system to provide advanced interventional lab visualization and instrument control through user-friendly computerized interfaces. We also coordinate our sales efforts with Siemens to co-place integrated systems at leading hospital sites in the U.S., Europe and in Asia. Under this alliance and under a separate services agreement, Siemens provides site planning, project management, equipment maintenance and support services for our products directly to our customers. To date, most of our systems placed for clinical use have been integrated with Siemens' digital fluoroscopy systems.

In May 2003, we entered into an expanded alliance with Siemens, under which we are collaborating to produce what we believe will be market leading technology to provide physicians with real-time 3D visualization of a patient's anatomy during a procedure by integrating pre-operative MRI and CT data with x-ray fluoroscopic data. We also agreed to integrate our instrument control technology with Siemens' imaging technology in order to develop new solutions in cardiology and, potentially, in interventional radiology. We have also entered into a separate development agreement for the Japanese market under which Siemens will coordinate regulatory approval and distribute, install and service our NIOBE Systems, whether integrated with the x-ray system of Siemens, or other third parties, in Japan. We have also entered into a software distribution agreement with Siemens under which we have the right to sublicense Siemens' 3D pre-operative image navigation software as part of our NAVIGANT advanced user interface.

Philips Alliance. In October 2003, we entered into an alliance with Philips, another recognized global leader in interventional lab sales, pursuant to which we agreed to integrate our NIOBE System with Philips' digital x-ray fluoroscopy system. We also agreed to identify areas of concentration for bringing new solutions to integration of information sources and instrument control in the interventional labs in cardiology and neurology. Under this alliance, we coordinate our sales and marketing efforts with Philips in order to co-place our integrated systems in addition to collaborating on the development of new solutions and sharing engineering and development costs

Disposables Devices Partner

Biosense Webster Alliance. We entered into an alliance in May 2002 pursuant to which we agreed to integrate Biosense Webster's advanced 3D catheter location sensing technology, which we believe has the leading market position in this important field of visualization for electrophysiology procedures, with our instrument control system, and to jointly develop associated location sensing electrophysiology mapping and ablation catheters that are navigable with the NIOBE System. We believe that these integrated products will provide physicians with the elements required for effective complex electrophysiology procedures: highly accurate information as to the exact location of the catheter in the body and highly precise control over the working tip of the catheter. We also agreed to coordinate our sales force efforts with Biosense Webster in order to place Biosense CARTO® RMT Systems and our NIOBE Systems that, together with the co-developed catheters, comprise the full integration of our instrument control and 3D location sensing technologies in the interventional lab. We expanded this alliance in November 2003 to include the parallel integration of our instrument control technology with Biosense Webster's full line of non-location sensing mapping and ablation catheters that are relevant to our targeted applications in electrophysiology.

The co-developed catheters are manufactured and distributed by Biosense Webster, and each of the parties agreed to contribute to the resources required for their development. We are entitled to royalty payments from Biosense Webster, payable quarterly based on a profit formula for sales of the co-developed catheters, and our revenue share increases under certain circumstances. Under this alliance, we agreed to certain restrictions on our ability to co-develop and distribute catheters competitive with those we are developing with Biosense Webster and granted Biosense Webster certain notice and discussion rights for product development activities we undertake relating to localization and magnetically enabling interventional disposable devices in cardiology fields outside of electrophysiology and mapping.

Either party may terminate this alliance in certain specified "change of control" situations, although the termination would not be effective until one year after the change of control and then would be subject to a wind-down period during which Biosense Webster would continue to supply co-developed catheters to us or to our customers for three years (or, for non-location sensing mapping and ablation catheters, until our first sale of a competitive product after a change of control, if earlier than three years). If we terminate the agreement under this provision, we must pay a termination fee to Biosense Webster equal to 5% of the total equity value of Stereotaxis in the change of control transaction, up to a maximum of $10 million. We also agreed to notify Biosense Webster if we reasonably believe that we are engaged in substantive discussions in respect of the sale of the company or substantially all of our assets.

In May, 2007 the Company and Biosense Webster amended their agreement to extend the development and distribution alliance related to the magnetically enabled irrigated tip catheters to December 31, 2011 and also to explore opportunities for expanding their integrated technology for the delivery of cells and other biological agents for the treatment of heart failure.

RESEARCH AND DEVELOPMENT

We have assembled an experienced group of engineers and physicists with recognized expertise in magnetics, software, control algorithms, systems integration and disposable interventional device modeling and design.

Our research and development efforts are focused in three major areas:

- continuing to enhance our existing system through ongoing product and software development;
- designing new proprietary disposable interventional devices for use with our system; and
- developing next generation versions of our system.

Our research and development team collaborates with our strategic partners, Siemens, Philips, and Biosense Webster, to integrate our NIOBE System's open architecture platform with key imaging, location sensing and information systems in the interventional lab. We have also collaborated with a number of highly regarded interventional physicians in key clinical areas and have entered into agreements with a number of universities and research institutions, which serve to increase our access to world class physicians and scientists and to expand our name recognition in the medical community.

CUSTOMER SERVICE AND SUPPORT

Stereotaxis has contracted with Siemens to provide worldwide maintenance and support services to our customers for our integrated products. This allows us to leverage Siemens' extensive maintenance and support infrastructure for direct, on-site technical support activities, including its call center, customer support engineers and service parts logistics and delivery. It also provides a single point of contact for the customer and allows us to focus on providing installation, training, and back-up technical support. We intend to follow the same strategy with Philips and with other potential collaboration partners in the future.

Our back-up technical support includes a combination of on-line, telephone and on-site technical assistance services 24 hours a day, seven days a week. We have also hired service and support engineers with networking and medical equipment expertise, and have outsourced a portion of our installation and support services. We offer several different levels of support to our customers, including basic hardware and software maintenance, extended product maintenance, and rapid response capability for both parts and service.

We have established an Odyssey Call Center and clinical support center in our St. Louis facilities, which provides real-time clinical support to our Odyssey customers worldwide via our Odyssey private network.

MANUFACTURING

NIOBE Systems

Our manufacturing strategy for our NIOBE System is to sub-contract the manufacture and testing of our system. This permits us to focus on our core competencies in magnet design, magnet physics, magnetic instrument control and navigational algorithms.

Disposable Interventional Devices

Our manufacturing strategy for disposable interventional devices is to outsource their manufacture through subcontracting and through our alliance with Biosense Webster and to expand partnerships for other

interventional devices. We have entered into manufacturing agreements to provide high volume capability for devices other than catheters.

Software

The software components of the NIOBE System, including control and application software, are developed both internally and with integrated modules we purchase or license. We perform final testing of software products in-house prior to their commercial release.

General

Our manufacturing facilities operate under processes that meet the FDA's requirements under the Quality System Regulation, or QSR. In 2003 and 2006, the FDA audited our Maple Grove, Minnesota facility for regulatory compliance, and no deficiencies were noted. A European notified body has regularly audited each facility annually since 2001 and found the facilities to be in compliance with European requirements. The initial certification was issued in January 2002 for compliance with ISO 9001. The most recent issuance of formal certification is for ISO 13485:2003.

SALES AND MARKETING

We market our products in the U.S and internationally through a direct sales force of senior sales specialists, distributors and sales agents, supported by account managers and clinical specialists that provide training, clinical support, and other services to our customers. In addition, our strategic alliances form an important part of our sales and marketing strategy. We leverage the sales forces of our imaging partners to co-market integrated systems on a worldwide basis. This approach allows us to maximize our leads and knowledge of the market opportunities while using our resources to sell directly to the customer. Under the terms of our agreement, Biosense Webster exclusively distributes our electrophysiology mapping and ablation catheters, co-developed pursuant to our alliance with them.

Our sales and marketing process has two important steps: (1) selling systems directly and through co-marketing agreements with our imaging partners, Siemens and Philips and through distributors; and (2) leveraging our installed base of systems to drive recurring sales of disposable interventional devices, software and service.

REIMBURSEMENT

We believe that substantially all of the procedures, whether commercial or in clinical trials, conducted in the U.S. with the NIOBE System have been reimbursed to date and that substantially all commercial procedures in Europe have been reimbursed. We expect that third-party payors will reimburse, under existing billing codes, our line of guidewires, as well as our line of ablation catheters and those on which we are collaborating with Biosense Webster. We expect healthcare facilities in the U.S. to bill various third-party payors, such as Medicare, Medicaid, other government programs and private insurers, for services performed with our products. We believe that procedures performed using our products, or targeted for use by products that do not yet have regulatory clearance or approval, are generally already reimbursable under government programs and most private plans. Accordingly, we believe providers in the U.S. will generally not be required to obtain new billing authorizations or codes in order to be compensated for performing medically necessary procedures using our products on insured patients. We cannot assure you that reimbursement policies of third-party payors will not change in the future with respect to some or all of the procedures using the NIOBE System. See "Item 1A—Risk Factors" for a discussion of various risks associated with reimbursement from third-party payors.

INTELLECTUAL PROPERTY

Our strategy is to patent the technology, inventions and improvements that we consider important to the development of our business. As a result, we have an extensive patent portfolio that we believe protects the fundamental scope of our technology, including our magnet technology, navigational methods, procedures, systems, disposables interventional devices and our 3D integration technology. As of December 31, 2007, we had 66 issued U.S. patents, 2 co-owned U.S. patents and 8 licensed U.S. patents. In addition, we had 123 pending U.S. patent applications, 12 co-owned U.S. patent applications, 9 licensed U.S. patent applications. As of December 31, 2007 we had pending 10 owned and one licensed Patent Cooperation Treaty applications and 33 owned and one co-owned Foreign Patent Applications. We also have a number of invention disclosures under consideration and several applications that are being prepared for filing.

The patent positions of medical device companies, including ours, can be highly uncertain and involve complex and evolving legal and factual questions. One or more of the above patent applications may be denied. In addition, our issued patents may be challenged, based on prior art circumvented or otherwise not provide protection for the products we develop. Furthermore, we may not be able to obtain patent licenses from third parties required for the development of new products for use with our system. We also note that U.S. patents and patent applications may be subject to interference proceedings and U.S. patents may be subject to reexamination proceedings in the U.S. Patent and Trademark Office (and foreign patents may be subject to opposition or comparable proceedings in the corresponding foreign patent office), which proceedings could result in either loss of the patent or denial of the patent application or loss or reduction in the scope of one or more of the claims of the patent or patent application. In addition, such interference, reexamination and opposition proceedings may be costly. In the event that we seek to enforce any of our owned or exclusively licensed patents against an infringing party, it is likely that the party defending the claim will seek to invalidate the patents we assert, which, if successful could result in the entire loss of our patent or the relevant portion of our patent and not just with respect to that particular infringer. Any litigation to enforce or defend our patents rights, even if we were to prevail, could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations.

It would be technically difficult and costly to reverse engineer our NIOBE System, which contains numerous complex algorithms that control our disposable devices inside the magnetic fields generated by the NIOBE System. We further believe that our patent portfolio is broad enough in scope to enable us to obtain legal relief if any entity not licensed by us attempted to market disposable devices that can be navigated by the NIOBE System. We can also utilize plastic security keys, with embedded smart chips and associated software that could allow our system to recognize specific disposable interventional devices in order to prevent unauthorized use of our system.

We have also developed substantial know-how in magnet design, magnet physics and magnetic instrument control that was developed in connection with the development of the NIOBE System, which we maintain as trade secrets. This know-how centers around our proprietary magnet design, which is a critical aspect of our ability to design, manufacture and install a cost-effective magnetic navigation system that is small enough to be installed in a standard interventional lab.

We seek to protect our proprietary information by requiring our employees, consultants, contractors, outside partners and other advisers to execute nondisclosure and assignment of invention agreements upon commencement of their employment or engagement, through which we seek to protect our intellectual property. These agreements to protect our unpatented technology provide only limited and possibly inadequate protection of our rights. Third parties may therefore be able to use our unpatented technology, reducing our ability to compete. In addition, employees, consultants and other parties to these agreements may breach them and adequate remedies may not be available to us for their breaches. Many of our employees were previously employed at universities or other medical device companies, including potential competitors. We could in the future be subject to claims that these employees or we have used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in

defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in defending against these claims, litigation could result in substantial costs and divert the attention of management and key personnel from our business operations. We also generally seek confidentiality agreements from third parties that receive our confidential data or materials.

Our intellectual property involves certain risks and uncertainties. Please refer to “Item 1A—Risk Factors” in this annual report for a description of these risks and uncertainties.

COMPETITION

The markets for medical devices are intensely competitive and are characterized by rapid technological advances, frequent new product introductions, evolving industry standards and price erosion.

We consider our primary competition to be existing manual catheter-based interventional techniques and surgical procedures. To our knowledge, we are the only company that has commercialized remote, digital and direct control of the working tip of catheters and guidewires for interventional use. Our success depends in part on convincing hospitals and physicians to convert existing interventional procedures to computer-assisted procedures.

We expect to face competition from companies that are developing new approaches and products for use in interventional procedures, including robotic approaches that may be directly competitive with our technology. Some of these companies may have an established presence in the field of interventional cardiology, including the major imaging, capital equipment and disposables companies that are currently selling products in the interventional lab. We are aware of one public company that has commercialized a catheter delivery system which has been cleared by the FDA for mapping procedures only and one private company at a much earlier stage of development. We also face competition from companies who currently market or are developing drugs or gene therapies to treat the conditions for which our products are intended.

We believe that the primary competitive factors in the market we address are capability, safety, efficacy, ease of use, price, quality, reliability and effective sales, support, training and service. The length of time required for products to be developed and to receive regulatory and reimbursement approval is also an important competitive factor. See “Item 1A—Risk Factors” for a discussion of other competitive risks facing our business.

GOVERNMENT REGULATION

The healthcare industry, and thus our business, is subject to extensive federal, state, local and foreign regulation. Some of the pertinent laws have not been definitively interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. In addition, these laws and their interpretations are subject to change.

Both federal and state governmental agencies continue to subject the healthcare industry to intense regulatory scrutiny, including heightened civil and criminal enforcement efforts. As indicated by work plans and reports issued by these agencies, the federal government will continue to scrutinize, among other things, the billing practices of healthcare providers and the marketing of healthcare products. The federal government also has increased funding in recent years to fight healthcare fraud, and various agencies, such as the U.S. Department of Justice, the Office of Inspector General of the Department of Health and Human Services, or OIG, and state Medicaid fraud control units, are coordinating their enforcement efforts.

We believe that we have structured our business operations and relationships with our customers to comply with all applicable legal requirements. However, it is possible that governmental entities or other third parties could interpret these laws differently and assert otherwise. We discuss below the statutes and regulations that are most relevant to our business and most frequently cited in enforcement actions.

U.S. Food and Drug Administration, or FDA, Regulation

The Food and Drug Administration strictly regulates the medical devices we produce under the authority of the Federal Food, Drug and Cosmetic Act, or FFDCA, the regulations promulgated under the FFDCA, and other federal and state statutes and regulations. The FFDCA governs, among other things, the pre-clinical and clinical testing, design, manufacture, safety, efficacy, labeling, storage, record keeping, post market reporting and advertising and promotion of medical devices.

Our medical devices are categorized under the statutory framework described in the FFDCA. This framework is a risk-based system which classifies medical devices into three classes from lowest risk (Class I) to highest risk (Class III). In general, Class I and II devices are either exempt from the need for FDA clearance or cleared for marketing through a premarket notification, or 510(k), process. Our devices that are considered to be general tools, such as our NIOBE magnetic navigation system and our suite of guidewires, or that provide diagnostic information, such as our TANGENT electrophysiology mapping catheters, are subject to 510(k) requirements. These devices are cleared for use as general tools which have utility in a variety of interventional procedures. Our therapeutic devices, such as our HELIOS II ablation catheters, are subject to the premarket approval, or PMA, process.

If clinical data are needed to support a marketing application for our devices, generally, an investigational device exemption, or IDE, is assembled and submitted to the FDA. The FDA reviews and must approve the IDE before the study can begin. In addition, the study must be approved by an Institutional Review Board covering each clinical site. When all approvals are obtained, we initiate a clinical study to evaluate the device. Following completion of the study, we collect, analyze and present the data in an appropriate submission to the FDA, either a 510(k) or PMA.

Under the 510(k) process, the FDA determines whether or not the device is “substantially equivalent” to a predicate device. In making this determination, the FDA compares both the new device and the predicate device. If the two devices are comparable in intended use, safety, and effectiveness, the device may be cleared for marketing.

Under the PMA process, the FDA examines detailed data relating to the safety and effectiveness of the device. This information includes design, development, manufacture, labeling, advertising, pre-clinical testing, and clinical study data. Prior to approving the PMA, the FDA generally will conduct an inspection of the facilities producing the device and one or more clinical sites where the study was conducted. The facility inspection evaluates the company’s readiness to commercially produce and distribute the device. The inspection includes an evaluation of compliance under the Quality System Regulation (QSR). Under certain circumstances, the FDA may convene an advisory panel meeting to seek review of the data presented in the PMA. If the FDA’s evaluation is favorable, the PMA is approved, and we can market the device in the U.S. The FDA may approve the PMA with conditions, such as post-market surveillance requirements.

We evaluate changes made following 510(k) clearance or PMA approval for significance and if appropriate, make a subsequent submission to the FDA. In the case of a significant change being made to a 510(k) device, we submit a new 510(k). For a PMA device, we will either need approval through a PMA supplement or will need to notify the FDA.

For our 510(k) devices, we design the submission to cover multiple models or variations in order to minimize the number of submissions. For our PMA devices, we often rely upon the PMA approvals of our strategic partners to utilize the PMA supplement regulatory path rather than pursue an original PMA. Because of the differences in the amount of data and numbers of patients in clinical trials, a PMA supplement process is often much shorter than the amount of time and data required for approval of an original PMA.

Currently our NIOBE magnetic navigation system, NAVIGANT advanced user interface, CARDIODRIVE automated catheter advancement system, ODYSSEY information management system, the CRONUS and ASSERT families of coronary guidewires, TANGENT electrophysiology mapping catheter and TITAN and PEGASUS families

of guidewires have been cleared by the FDA to be used in interventional procedures. We have received the CE Mark for our HELIOS II electrophysiology ablation catheter and, in the U.S., we have filed a PMA for this device. In addition, we have received the CE Mark for our NIOBE magnetic navigation system, NAVIGANT advanced user interface, CARDIODRIVE automated catheter advancement system, the CRONUS and ASSERT family of coronary guidewires and our family of TITAN guidewires. In addition, Biosense Webster received FDA approval and CE Mark approval for the CELSIUS® RMT, the NAVISTAR® RMT, the NAVISTAR®RMT DS , and the Navistar® RMT ThermoCool® Irrigated Tip diagnostic/ablation steerable tip catheters as described above.

Foreign Regulation

In order for us to market our products in other countries, we must obtain regulatory approvals and comply with extensive safety and quality regulations in other countries. These regulations, including the requirements for approvals or clearance and the time required for regulatory review, vary from country to country. Failure to obtain regulatory approval in any foreign country in which we plan to market our products may harm our ability to generate revenue and harm our business.

The primary regulatory environment in Europe is that of the European Union, which consists of 27 countries encompassing most of the major countries in Europe. The European Union requires that manufacturers of medical products obtain the right to affix the CE Mark to their products before selling them in member countries of the European Union. The CE Mark is an international symbol of adherence to quality assurance standards and compliance with applicable European medical device directives. In order to obtain the right to affix the CE Mark to products, a manufacturer must obtain certification that its processes meet certain European quality standards. Compliance with the Medical Device Directive, as certified by a recognized European Notified Body, permits the manufacturer to affix the CE Mark on its products and commercially distribute those products throughout the European Union.

We have received the right to affix the CE Mark to each of our products that has received 510(k) clearance in the U.S. and also for our HELIOS II ablation catheter. We have not applied for the right to affix the CE Mark to our TANGENT mapping catheter as it is not currently marketed. If we modify existing products or develop new products in the future, including new devices, we will need to apply for permission to affix the CE Mark to such products. We will be subject to regulatory audits, currently conducted biannually, in order to maintain any CE Mark permissions we have already obtained. We cannot be certain that we will be able to obtain permission to affix the CE Mark for new or modified products or that we will continue to meet the quality and safety standards required to maintain the permissions we have already received. If we are unable to maintain permission to affix the CE Mark to our products, we will no longer be able to sell our products in member countries of the European Union.

Through Siemens and in collaboration with Biosense, we intend to submit an application for regulatory approval to commence a clinical study with the Japanese Ministry of Health, Labor and Welfare for commercial use of the NIOBE System in Japan. Siemens has agreed to coordinate the regulatory approval process and act as distributor for our NIOBE magnetic navigation system and NAVIGANT advanced user interface in Japan. We have received regulatory approval for the NIOBE magnetic navigation system and for our TANGENT mapping catheter in China. We will continue to pursue regulatory approval of additional devices. We have received regulatory approval for our system and for various disposable devices in other countries and we will evaluate regulatory approval in other foreign countries on an opportunistic basis.

In addition, Biosense Webster has obtained the right to affix the CE Mark to the CELSIUS® RMT, the NAVISTAR® RMT, the NAVISTAR® RMT DS , and the Navistar® RMT ThermoCool® Irrigated Tip diagnostic/ablation steerable tip catheters.

Anti-Kickback Statute

The federal healthcare program Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either

the referral of an individual, or furnishing or arranging for a good or service, for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs. The definition of "remuneration" has been broadly interpreted to include anything of value, including for example gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash and waivers of payments. Several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. Penalties for violations include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. In addition, some kickback allegations have been claimed to violate the Federal False Claims Act, discussed in more detail below.

The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements, Congress authorized the OIG to issue a series of regulations, known as the "safe harbors" which it did, beginning in July of 1991. These safe harbors set forth provisions that, if all their applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the federal Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities such as the OIG.

Many states have adopted laws similar to the federal Anti-Kickback Statute. Some of these state prohibitions apply to referral of patients for healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs.

Government officials have focused their enforcement efforts on marketing of healthcare services and products, among other activities, and recently have brought cases against sales personnel who allegedly offered unlawful inducements to potential or existing customers in an attempt to procure their business. As part of our compliance program, we have established a formal Clinical Compliance Committee and appointed a Clinical Compliance Officer to help ensure compliance with the Anti-Kickback Statute and similar state laws and we train our employees on our healthcare compliance policies. However, we cannot rule out the possibility that the government or other third parties could interpret these laws differently and assert otherwise.

HIPAA

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment or exclusion from government sponsored programs. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. A violation of this statute is a felony and may result in fines or imprisonment.

In addition to creating the two new federal healthcare crimes, HIPAA also establishes uniform standards governing the conduct of certain electronic healthcare transactions and protecting the security and privacy of individually identifiable health information maintained or transmitted by healthcare providers, health plans and healthcare clearinghouses. Two standards have been promulgated under HIPAA: the Standards for Privacy of Individually Identifiable Health Information, which restrict the use and disclosure of certain individually identifiable health information, and the Standards for Electronic Transactions, which establish standards for common healthcare transactions, such as claims information, plan eligibility, payment information and the use of electronic signatures. In addition, the Security Standards required covered entities to implement certain security measures to safeguard certain electronic health information by April 2005. Although we believe we are not a

covered entity and therefore do not need to comply with these standards, our customers generally are covered entities and frequently ask us to comply with certain aspects of these standards. While the government intended this legislation to reduce administrative expenses and burdens for the healthcare industry, our compliance with certain provisions of these standards may entail significant and costly changes for us. If we fail to comply with these standards, it is possible that we could be subject to criminal penalties.

In addition to federal regulations issued under HIPAA, some states and foreign countries have enacted privacy and security statutes or regulations that, in some cases, are more stringent than those issued under HIPAA. In those cases, it may be necessary to modify our operations and procedures to comply with the more stringent state laws, which may entail significant and costly changes for us. We believe that we are in compliance with such state laws and regulations. However, if we fail to comply with applicable state laws and regulations, we could be subject to additional sanctions.

Federal False Claims Act

Another trend affecting the healthcare industry is the increased use of the federal False Claims Act and, in particular, actions under the False Claims Act's "whistleblower" or "qui tam" provisions. Those provisions allow a private individual to bring actions on behalf of the government alleging that the defendant has defrauded the federal government. The government must decide whether to intervene in the lawsuit and to become the primary prosecutor. If it declines to do so, the individual may choose to pursue the case alone, although the government must be kept apprised of the progress of the lawsuit. Whether or not the federal government intervenes in the case, it will receive the majority of any recovery. If the individual's litigation is successful, the individual is entitled to no less than 15%, but no more than 30%, of whatever amount the government recovers. In recent years, the number of suits brought against healthcare providers by private individuals has increased dramatically. In addition, various states have enacted laws modeled after the federal False Claims Act.

When an entity is determined to have violated the federal False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties from $5,500 to $11,000 for each separate false claim. There are many potential bases for liability under the federal False Claims Act. Liability arises, primarily, when an entity knowingly submits, or causes another to submit, a false claim for reimbursement to the federal government. Although simple negligence should not give rise to liability, submitting a claim with reckless disregard or deliberate ignorance of its truth or falsity could result in substantial civil liability. The False Claims Act has been used to assert liability on the basis of inadequate care, improper referrals, and improper use of Medicare numbers when detailing the provider of services, in addition to the more predictable allegations as to misrepresentations with respect to the services rendered. We are unable to predict whether we could be subject to actions under the False Claims Act, or the impact of such actions. However, the costs of defending claims under the False Claims Act, as well as sanctions imposed under the Act, could significantly affect our financial performance.

Certificate of Need Laws

In approximately two-thirds of the states, a certificate of need or similar regulatory approval is required prior to the acquisition of high-cost capital items or various types of advanced medical equipment, such as our NIOBE System. At present, many of the states in which we sell NIOBE Systems have laws that require institutions located in those states to obtain a certificate of need in connection with the purchase of our system, and some of our purchase orders are conditioned upon our customer's receipt of necessary certificate of need approval. Certificate of need laws were enacted to contain rising health care costs, prevent the unnecessary duplication of health resources, and increase patient access for health services. In practice, certificate of need laws have prevented hospitals and other providers who have been unable to obtain a certificate of need from acquiring new equipment or offering new services. A further increase in the number of states regulating our business through certificate of need or similar programs could adversely affect us. Moreover, some states may have additional requirements. For example, we understand that California's certificate of need law also incorporates seismic safety requirements which must be met before a hospital can acquire our NIOBE System.

Employees

As of December 31, 2007, we had 222 employees, 63 of whom were engaged directly in research and development, 84 in sales and marketing activities, 25 in manufacturing and service, 18 in regulatory, clinical affairs and quality activities, 10 in training activities and 22 in general administrative and accounting activities. None of our employees is covered by a collective bargaining agreement, and we consider our relationship with our employees to be good.

Availability of Information

We make certain filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments and exhibits to those reports, available free of charge in the Investor Relations section of our website, *http://www.stereotaxis.com*, as soon as reasonably practicable after they are filed with the SEC. The filings are also available through the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling 1-800-SEC-0330. Further, these filings are available on the Internet at http://www.sec.gov. Information contained on our website is not part of this report and such information is not incorporated by reference into this report.

ITEM 1A. RISK FACTORS

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

Hospital decision-makers may not purchase our NIOBE System or may think that it is too expensive.

The market for our products and related technology is not well established. To achieve continued sales, hospitals must purchase our products, and in particular, our NIOBE magnetic navigation system. The NIOBE magnetic navigation system, which is the core of our NIOBE System, is a novel device, and hospitals and physicians are traditionally slow to adopt new products and treatment practices. In addition, hospitals may delay their purchase or installation decision based on the disposable interventional devices that have received regulatory clearance or approval. Moreover, the NIOBE System is an expensive piece of capital equipment, representing a significant portion of the cost of a new or replacement interventional lab. If hospitals do not widely adopt our NIOBE System, or if they decide that it is too expensive, we may never become profitable. Any failure to sell as many NIOBE Systems as our business plan requires could also have a seriously detrimental impact on our results of operations, financial condition, and cash flow.

General economic conditions may cause our customers to delay purchasing our products which may result in lower revenues for us.

An economic downturn in the United States or in any other country in which we sell our products may cause customers to delay purchasing or installation decisions. The NIOBE System is typically purchased as part of a larger overall capital project and an economic downturn might make it more difficult for our customers to obtain adequate financing to support the project or to obtain requisite internal approvals. Any delay in purchasing decisions may result in a decrease in our revenues.

Physicians may not use our products if they do not believe they are safe and effective.

We believe that physicians will not use our products unless they determine that the NIOBE System provides a safe, effective and preferable alternative to interventional methods in general use today. Currently, there is only limited clinical data on the NIOBE System with which to assess safety and efficacy. If longer-term patient studies or clinical experience indicate that treatment with our system or products is less effective, less efficient or less safe than our current data suggest, our sales would be harmed, and we could be subject to significant liability. Further, unsatisfactory patient outcomes or patient injury could cause negative publicity for our products, particularly in the early phases of product introduction. In addition, physicians may be slow to adopt our products if they perceive liability risks arising from the use of these new products. It is also possible that as our products become more widely used, latent defects could be identified, creating negative publicity and liability problems for us and adversely affecting demand for our products. If physicians do not use our products, we likely will not become profitable or generate sufficient cash to survive as a going concern.

Our collaborations with Siemens, Philips, Biosense Webster or other parties may fail, or we may not be able to enter into additional partnerships or collaborations in the future.

We are collaborating with Siemens, Philips, Biosense Webster and other parties to integrate our instrument control technology with their respective imaging products or disposable interventional devices and to co-develop additional disposable interventional devices for use with our NIOBE System. A significant portion of our revenue from system sales will be derived from these integrated products. Siemens provides post-installation maintenance and support services to our customers for our integrated systems and we are in discussions with Philips to provide the same.

Our product commercialization plans could be disrupted, leading to lower than expected revenue and a material and adverse impact on our results of operations and cash flow, if:

- any of our collaboration partners delays or fails in the integration of its technology with our NIOBE System as planned;
- any of our collaboration partners fails to develop or commercialize the integrated products in a timely manner;
- any of our collaboration partners does not co-market and co-promote our integrated products diligently or does not provide maintenance and support services as we expect; or
- we become involved in disputes with one or more of our collaboration partners regarding our collaborations.

Siemens, Philips and Biosense Webster, as well as some of our other collaborators, are large, global organizations with diverse product lines and interests that may diverge from our interests in commercializing our products. Accordingly, our collaborators may not devote adequate resources to our products, or may experience financial difficulties, change their business strategy or undergo a business combination that may affect their willingness or ability to fulfill their obligations to us.

The failure of one or more of our collaborations could have a material adverse effect on our financial condition, results of operations and cash flow. In addition, if we are unable to enter into additional partnerships in the future, or if these partnerships fail, our ability to develop and commercialize products could be impacted negatively and our revenue could be adversely affected.

The recently announced halting of procedures preformed with our partnered magnetic irrigated catheter may negatively affect our results of operations.

On March 3, 2008, we announced that our catheter partner had advised us that the external evaluation phase of the magnetic irrigated catheter launch had identified a relatively small number of catheters that exhibited signs of char or coagulum formation. Our partner has advised us that these characteristics are inconsistent with the product specifications. Consequently, they have informed us that they will be temporarily halting procedures done with magnetic irrigated catheters and will be delaying full commercialization until this issue is resolved. Our catheter partner has attributed this issue to inconsistencies with specifications and this information, together with the observations of our own engineers, leads us to believe the root cause may lie in the area of manufacturing conformance to specifications. We are currently unable to predict what remedial actions will be necessary to resolve this issue and when commercial re-launch will occur, if at all. Moreover, while we currently expect that the negative results are the result of a manufacturing specification issue, if the issue requires a redesign, resolution of the issue could take significantly longer than addressing a manufacturing specification issue. Any such delay in commercial re-launch would adversely affect our results of operations. Further, sales of our NIOBE System could be negatively affected as hospital decision-makers evaluate the status of this issue.

We have limited experience selling, marketing, and distributing products, which could impair our ability to increase revenue.

We currently market our products in the U.S., Europe and the rest of the world through a direct sales force of sales specialists, distributors and sales agents, supported by account managers and clinical specialists who provide training, clinical support, and other services to our customers. If we are unable to increase our sales force or effectively utilize our existing sales force in the foreseeable future, we may be unable to generate the revenue we have projected in our business plan. Factors that may inhibit our sales and marketing efforts include:

- our inability to recruit and retain adequate numbers of qualified sales and marketing personnel;
- the inability of sales personnel to obtain access to or persuade adequate numbers of hospitals and physicians to purchase and use our products;

- unforeseen costs associated with maintaining and expanding an independent sales and marketing organization; and
- increased government scrutiny with respect to marketing activities in the health care industry.

In addition, if we fail to effectively use distributors or contract sales persons for distribution of our products where appropriate, our revenue and profitability would be adversely affected.

Our marketing strategy is dependent on collaboration with physician "thought leaders."

Our research and development efforts and our marketing strategy depend heavily on obtaining support and collaboration from highly regarded physicians at leading commercial and research hospitals, particularly in the U.S. and Europe. If we are unable to gain and/or maintain such support and collaboration or if the reputation or standing of these physicians is impaired or otherwise adversely affected, our ability to market the NIOBE System and, as a result, our financial condition, results of operations and cash flow could be materially and adversely affected.

We may not be able to rapidly train physicians in numbers sufficient to generate adequate demand for our products.

In order for physicians to learn to use the NIOBE System, they must attend one or more training sessions in order to familiarize themselves with a sophisticated user interface. Market acceptance could be delayed by lack of physician willingness to attend training sessions or by the time required to complete this training. An inability to train a sufficient number of physicians to generate adequate demand for our products could have a material adverse impact on our financial condition and cash flow.

Customers may choose to purchase competing products and not ours.

Our products must compete with established manual interventional methods. These methods are widely accepted in the medical community, have a long history of use and do not require the purchase of an additional expensive piece of capital equipment. In addition, many of the medical conditions that can be treated using our products can also be treated with existing pharmaceuticals or other medical devices and procedures. Many of these alternative treatments are widely accepted in the medical community and have a long history of use.

We also face competition from companies that are developing drugs or other medical devices or procedures to treat the conditions for which our products are intended. The medical device and pharmaceutical industries make significant investments in research and development, and innovation is rapid and continuous. We are aware of one public company that has commercialized a catheter delivery system which has been cleared by the FDA for mapping procedures only and one private company at a much earlier stage of development. If these or other new products or technologies emerge that provide the same or superior benefits as our products at equal or lesser cost, it could render our products obsolete or unmarketable. We cannot be certain that physicians will use our products to replace or supplement established treatments or that our products will be competitive with current or future products and technologies.

Many of our other competitors also have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger base of customers than we do. In addition, as the markets for medical devices develop, additional competitors could enter the market. We cannot assure you that we will be able to compete successfully against existing or new competitors. Our revenue would be reduced or eliminated if our competitors develop and market products that are more effective and less expensive than our products.

If we are unable to fulfill our current purchase orders and other commitments on a timely basis or at all, we may not be able to achieve future sales growth.

Our backlog, which consists of purchase orders and other commitments, is considered by some investors to be a significant indicator of future performance. Consequently, negative changes to this backlog or its failure to grow commensurate with expectations could negatively impact our future operating results or our share price. Our backlog includes those outstanding purchase orders and other commitments that management believes will result in recognition of revenue upon delivery or installation of our systems. We cannot assure you that we will recognize revenue in any particular period or at all because some of our purchase orders and other commitments are subject to contingencies that are outside our control. In addition, these orders and commitments may be revised, modified or cancelled, either by their express terms, as a result of negotiations or by project changes or delays. System installation is by its nature subject to the interventional lab construction or renovation process which comprises multiple stages, all of which are outside of our control. Although the actual installation of our system requires only a few weeks, and can be accomplished by either our staff or by subcontractors, successful installation of our system can be subjected to delays related to the overall construction or renovation process. If we experience any failures or delays in completing the installation of these systems, our reputation would suffer and we may not be able to sell additional systems. We have experienced situations in which our purchase orders and other commitments did not result in recognizing revenue from placement of a system with a customer. In addition to construction delays, there are risks that an institution will attempt to cancel a purchase order as a result of subsequent project review by the institution or the departure from the institution of physicians or physician groups who have expressed an interest in the Niobe System.

These, or similar events, have occurred in the past and are likely to occur in the future, causing delays in revenue recognition or even removal of orders and other commitments from our backlog. Such events would have a negative effect on our revenue and results of operations.

We will likely experience long and variable sales and installation cycles, which could result in substantial fluctuations in our quarterly results of operations.

We anticipate that our system will continue to have a lengthy sales cycle because it consists of a relatively expensive piece of capital equipment, the purchase of which requires the approval of senior management at hospitals, inclusion in the hospitals' interventional lab budget process for capital expenditures, and, in some instances, a certificate of need from the state or other regulatory approval. In addition, the majority of our systems have historically been installed less than one year after the receipt of a purchase order from a hospital, with the timing being dependant on the construction cycle for the new or replacement interventional suite in which the equipment will be installed. In some cases, this time frame has been extended further because the interventional suite construction is part of a larger construction project at the customer site (typically the construction of a new building), which may occur with our existing and future purchase orders. This may contribute to substantial fluctuations in our quarterly operating results. As a result, in future quarters our operating results could fall below the expectations of securities analysts or investors, in which event our stock price would likely decrease.

If the magnetic fields generated by our system are not compatible with, or interfere with, other widely used equipment in the interventional labs, sales of our products would be negatively affected.

Our system generates magnetic fields that directly govern the motion of the internal, or working, tip of disposable interventional devices. If other equipment in the interventional labs or elsewhere in a hospital is incompatible with the magnetic fields generated by our system, or if our system interferes with such equipment, we may be required to install additional shielding, which may be expensive and which may not solve the problem. If magnetic interference becomes a significant issue at targeted institutions, it would increase our installation costs at those institutions and could limit the number of hospitals that would be willing to purchase and install our systems, either of which would adversely affect our financial condition, results of operations and cash flow.

The use of our products could result in product liability claims that could be expensive, divert management's attention, and harm our reputation and business.

Our business exposes us to significant risks of product liability claims. The medical device industry has historically been litigious, and we could face product liability claims if the use of our products were to cause injury or death. The coverage limits of our product liability insurance policies may not be adequate to cover future claims, and we may be unable to maintain product liability insurance in the future at satisfactory rates or adequate amounts. A product liability claim, regardless of its merit or eventual outcome, could divert management's attention, result in significant legal defense costs, significant harm to our reputation and a decline in revenue.

Our costs could substantially increase if we receive a significant number of warranty claims.

We generally warrant each of our products against defects in materials and workmanship for a period of 12 months following the installation of our system. If product returns or warranty claims increase, we could incur unanticipated additional expenditures for parts and service. In addition, our reputation and goodwill in the interventional lab market could be damaged. While we have established reserves for liability associated with product warranties, unforeseen warranty exposure in excess of those reserves could materially and adversely affect our financial condition, results of operations and cash flow.

We may not generate cash from operations necessary to commercialize our existing products and invest in new products.

We may require additional funds to meet our working capital and capital expenditure needs in the future. We cannot be certain that we will be able to obtain additional financing on favorable terms or at all. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- enhance our existing products or develop new ones;
- expand our operations;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated capital requirements.

Our failure to do any of these things could result in lower revenue and adversely affect our financial condition and results of operations, and we may have to curtail or cease operations.

We have incurred substantial losses in the past and may not be profitable in the future.

We have incurred substantial net losses since inception, and we expect to incur substantial net losses into 2008 as we seek additional regulatory approvals, launch new products and generally continue to scale up our sales and marketing operations to continue the commercialization of our products. We may not be successful in completing the development or commercialization of our technology. Moreover, the extent of our future losses and the timing of profitability are highly uncertain, and we may never achieve profitable operations. If we require more time than we expect to generate significant revenue and achieve profitability, we may not be able to continue our operations. Our failure to achieve profitability could negatively impact the market price of our common stock. Even if we do become profitable, we may not be able to sustain or increase profitability on a quarterly or annual basis. Furthermore, even if we achieve significant revenue, we may choose to pursue a strategy of increasing market penetration and presence or expand or accelerate new product development or clinical research activities at the expense of profitability.

Our reliance on contract manufacturers and on suppliers, and in some cases, a single supplier, could harm our ability to meet demand for our products in a timely manner or within budget.

We depend on contract manufacturers to produce and assemble most of the components of our systems and other products such as our guidewires and electrophysiology catheter advancement devices. We also depend on various third party suppliers for the magnets we use in our NIOBE magnetic navigation systems. In addition, some of the components necessary for the assembly of our products are currently provided to us by a single supplier, including the magnets for our NIOBE magnetic navigation system, and we generally do not maintain large volumes of inventory. Our reliance on these third parties involves a number of risks, including, among other things, the risk that:

- we may not be able to control the quality and cost of our system or respond to unanticipated changes and increases in customer orders;
- we may lose access to critical services and components, resulting in an interruption in the manufacture, assembly and shipment of our systems; and
- we may not be able to find new or alternative components for our use or reconfigure our system and manufacturing processes in a timely manner if the components necessary for our system become unavailable.

If any of these risks materialize, it could significantly increase our costs and impair product delivery.

Lead times for materials and components ordered by us and our contract manufacturers vary and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. We and our contract manufacturers acquire materials, complete standard subassemblies and assemble fully configured systems based on sales forecasts. If orders do not match forecasts, our contract manufacturers and we may have excess or inadequate inventory of materials and components.

In addition, if these manufacturers or suppliers stop providing us with the components or services necessary for the operation of our business, we may not be able to identify alternate sources in a timely fashion. Any transition to alternate manufacturers or suppliers would likely result in operational problems and increased expenses and could delay the shipment of, or limit our ability to provide, our products. We cannot assure you that we would be able to enter into agreements with new manufacturers or suppliers on commercially reasonable terms or at all. Additionally, obtaining components from a new supplier may require a new or supplemental filing with applicable regulatory authorities and clearance or approval of the filing before we could resume product sales. Any disruptions in product flow may harm our ability to generate revenue, lead to customer dissatisfaction, damage our reputation and result in additional costs or cancellation of orders by our customers.

We also rely on our collaboration partner, Biosense Webster, and other parties to manufacture a number of disposable interventional devices for use with our NIOBE System. If these parties cannot manufacture sufficient quantities of disposable interventional devices to meet customer demand, or if their manufacturing processes are disrupted, our revenue and profitability would be adversely affected.

Risks associated with international manufacturing and trade could negatively impact the availability and cost of our products because materials used to manufacture our magnets, one of our key system components, are sourced from overseas.

We purchase the permanent magnets for our NIOBE magnetic navigation system from a manufacturer that uses material produced in Japan, and we anticipate that certain of the production work for these magnets will be performed for this manufacturer in China. In addition, our subcontractor purchases magnets for our disposable interventional devices directly from a manufacturer in Japan. Any event causing a disruption of imports, including the imposition of import restrictions, could adversely affect our business. The flow of components from our vendors could also be adversely affected by financial or political instability in any of the countries in

which the goods we purchase are manufactured, if the instability affects the production or export of product components from those countries. Trade restrictions in the form of tariffs or quotas, or both, could also affect the importation of those product components and could increase the cost and reduce the supply of products available to us. In addition, decreases in the value of the U.S. dollar against foreign currencies could increase the cost of products we purchase from overseas vendors.

We have limited experience in manufacturing and assembling our products and may encounter problems at our manufacturing facilities or those of our subcontractors or otherwise experience manufacturing delays that could result in lost revenue.

We do not have extensive experience in manufacturing, assembling or testing our products on a commercial scale as we subcontract the manufacture, assembly and testing of our NIOBE magnetic navigation system and our disposable devices. We may be unable to meet the expected future demand for our NIOBE System. In addition, the products we design may not satisfy all of the performance requirements and we may need to improve or modify the design or ask our subcontractors to modify their production process in order to do so. We or our subcontractors may experience quality problems, substantial costs and unexpected delays related to efforts to upgrade and expand manufacturing, assembly and testing capabilities. If we incur delays due to quality problems or other unexpected events, we will be unable to produce a sufficient supply of product necessary to meet our future growth expectations.

We may be unable to protect our technology from use by third parties.

Our commercial success will depend in part on obtaining patent and other intellectual property right protection for the technologies contained in our products and on successfully defending these rights against third party challenges. The patent positions of medical device companies, including ours, can be highly uncertain and involve complex and evolving legal and factual questions. We cannot assure you that we will obtain the patent protection we seek, that any protection we do obtain will be found valid and enforceable if challenged or that it will confer any significant commercial advantage. U.S. patents and patent applications may also be subject to interference proceedings and U.S. patents may be subject to re-examination proceedings in the U.S. Patent and Trademark Office, and foreign patents may be subject to opposition or comparable proceedings in the corresponding foreign patent office, which proceedings could result in either loss of the patent or denial of the patent application or loss, or reduction in the scope of one or more of the claims of, the patent or patent application. In addition, such interference, re-examination, and opposition proceedings may be costly. Thus, any patents that we own or license from others may not provide any protection against competitors. Our pending patent applications, those we may file in the future, or those we may license from third parties may not result in patents being issued and certain foreign patent applications for medical related devices and methods may be found unpatentable. If issued, they may not provide us with proprietary protection or competitive advantages against competitors with similar technology.

Some of our technology was developed in conjunction with third parties, and thus there is a risk that a third party may claim rights in our intellectual property. Outside the U.S., we rely on third-party payment services for the payment of foreign patent annuities and other fees. Non-payment or delay in payment of such fees, whether intentional or unintentional, may result in loss of patents or patent rights important to our business. Many countries, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties (for example, the patent owner has failed to “work” the invention in that country, or the third party has patented improvements). In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of the patent. We also cannot assure you that we will be able to develop additional patentable technologies. If we fail to obtain adequate patent protection for our technology, or if any protection we obtain becomes limited or invalidated, others may be able to make and sell competing products, impairing our competitive position.

Our trade secrets, nondisclosure agreements and other contractual provisions to protect unpatented technology provide only limited and possibly inadequate protection of our rights. As a result, third parties may be able to use our unpatented technology, and our ability to compete in the market would be reduced. In addition, employees, consultants and others who participate in developing our products or in commercial relationships with us may breach their agreements with us regarding our intellectual property, and we may not have adequate remedies for the breach.

Our competitors may independently develop similar or alternative technologies or products that are equal or superior to our technology and products without infringing any of our patent or other intellectual property rights, or may design around our proprietary technologies. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent, as do the laws of the U.S., particularly in the field of medical products and procedures.

Third parties may assert that we are infringing their intellectual property rights.

Successfully commercializing our products will depend in part on not infringing patents held by third parties. It is possible that one or more of our products, including those that we have developed in conjunction with third parties, infringes existing patents. We may also be liable for patent infringement by third parties whose products we use or combine with our own and for which we have no right to indemnification. In addition, because patent applications are maintained under conditions of confidentiality and can take many years to issue, there may be applications now pending of which we are unaware and which may later result in issued patents that our products infringe. Determining whether a product infringes a patent involves complex legal and factual issues and may not become clear until finally determined by a court in litigation. Our competitors may assert that our products infringe patents held by them. Moreover, as the number of competitors in our market grows the possibility of a patent infringement claim against us increases. If we were not successful in obtaining a license or redesigning our products, we could be subject to litigation. If we lose in this kind of litigation, a court could require us to pay substantial damages or prohibit us from using technologies essential to our products covered by third-party patents. An inability to use technologies essential to our products would have a material adverse effect on our financial condition, results of operations and cash flow and could undermine our ability to continue operating as a going concern.

Expensive intellectual property litigation is frequent in the medical device industry.

Infringement actions, validity challenges and other intellectual property claims and proceedings, whether with or without merit, can be expensive and time-consuming and would divert management’s attention from our business. We have incurred, and expect to continue to incur, substantial costs in obtaining patents and may have to incur substantial costs defending our proprietary rights. Incurring such costs could have a material adverse effect on our financial condition, results of operations and cash flow.

We may not be able to obtain all the licenses from third parties necessary for the development of new products.

As we develop additional disposable interventional devices for use with our system, we may find it advisable or necessary to seek licenses or otherwise make payments in exchange for rights from third parties who hold patents covering technology used in specific interventional procedures. For example, in 2005 we made a substantial payment to the University of Virginia Patent Foundation to eliminate any requirement for us to pay royalties on Stereotaxis products that address clinical applications in the cardiovascular, peripheral vascular and certain other clinical fields. If we cannot obtain the desired licenses or rights, we could be forced to try to design around those patents at additional cost or abandon the product altogether, which could adversely affect revenue and results of operations. If we have to abandon a product, our ability to develop and grow our business in new directions and markets would be adversely affected.

Our products and related technologies can be applied in different industries, and we may fail to focus on the most profitable areas.

The NIOBE System is designed to have the potential for expanded applications beyond electrophysiology and interventional cardiology, including congestive heart failure, structural heart repair, interventional neurosurgery, interventional neuroradiology, peripheral vascular, pulmonology, urology, gynecology and gastrointestinal medicine. However, we have limited financial and managerial resources and therefore may be required to focus on products in selected industries and to forego efforts with regard to other products and industries. Our decisions may not produce viable commercial products and may divert our resources from more profitable market opportunities. Moreover, we may devote resources to developing products in these additional areas but may be unable to justify the value proposition or otherwise develop a commercial market for products we develop in these areas, if any. In that case, the return on investment in these additional areas may be limited, which could negatively affect our results of operations.

We may be subject to damages resulting from claims that our employees or we have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees were previously employed at hospitals, universities or other medical device companies, including our competitors or potential competitors. We could in the future be subject to claims that these employees or we have used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. Incurring such costs could have a material adverse effect on our financial condition, results of operations and cash flow.

If we or our strategic partners fail to obtain or maintain necessary FDA clearances or approvals for our medical device products, or if such clearances or approvals are delayed, we will be unable to continue to commercially distribute and market our products.

Our products are medical devices that are subject to extensive regulation in the U.S. and in foreign countries where we do business. Unless an exemption applies, each medical device that we wish to market in the U.S. must first receive either a 510(k) clearance or a pre-market approval, or PMA, from the U.S. Food and Drug Administration pursuant to the Federal Food, Drug, and Cosmetic Act. The FDA's 510(k) clearance process usually takes from four to 12 months, but it can take longer. The process of obtaining PMA approval is much more costly, lengthy, and uncertain, generally taking from one to three years or even longer. Although we have 510(k) clearance for our current Stereotaxis System, including a limited number of disposable interventional devices, and are able to market our system commercially in the U.S., our business model relies significantly on revenue from disposable interventional devices, some of which do not currently have FDA clearance or approval. We cannot assure you that any of our devices will not be required to undergo the lengthier and more burdensome PMA process. We cannot commercially market our unapproved disposable interventional devices in the U.S. until the necessary clearances or approvals from the FDA have been received. In addition, we are working with third parties to co-develop disposable products. In some cases, these companies are responsible for obtaining appropriate regulatory clearance or approval to market these disposable devices. If these clearances or approvals are not received or are substantially delayed or if we are not able to offer a sufficient array of approved disposable interventional devices, we may not be able to successfully market our system to as many institutions as we currently expect, which could have a material adverse impact on our financial condition, results of operations and cash flow.

Furthermore, obtaining 510(k) clearances, PMAs or PMA supplement approvals, from the FDA could result in unexpected and significant costs for us and consume management's time and other resources. The FDA could ask us to supplement our submissions, collect non-clinical data, conduct clinical trials or engage in other time-consuming actions, or it could simply deny our applications. In addition, even if we obtain a 510(k) clearance or

PMA or PMA supplement approval, the clearance or approval could be revoked or other restrictions imposed if post-market data demonstrates safety issues or lack of effectiveness. We cannot predict with certainty how, or when, the FDA will act on our marketing applications. If we are unable to obtain the necessary regulatory approvals, our financial condition and cash flow may be adversely affected. Also, a failure to obtain approvals may limit our ability to grow domestically and internationally.

If our strategic partners or we fail to obtain regulatory approvals in other countries for products under development, we will not be able to commercialize these products in those countries.

In order to market our products outside of the U.S., we and our strategic partners must establish and comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy. Approval procedures vary among countries and can involve additional product testing and additional administrative review periods. The time required to obtain approval in other countries might differ from that required to obtain FDA approval. The regulatory approval process in other countries may include all of the risks detailed above regarding FDA approval in the U.S. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country may negatively impact the regulatory process in others. Failure to obtain regulatory approval in other countries or any delay or setback in obtaining such approval could have the same adverse effects described above regarding FDA approval in the U.S. In addition, we are relying on our strategic partners in some instances to assist us in this regulatory approval process in countries outside the U.S. and Europe, for example, in Japan.

We may fail to comply with continuing regulatory requirements of the FDA and other authorities and become subject to substantial penalties.

Even after product clearance or approval, we must comply with continuing regulation by the FDA and other authorities, including the FDA's Quality System Regulation, or QSR, requirements, labeling and promotional requirements and medical device adverse event and other reporting requirements. Any failure to comply with continuing regulation by the FDA or other authorities could result in enforcement action that may include suspension or withdrawal of regulatory approvals, recalling products, ceasing product manufacture and/or marketing, seizure and detention of products, paying significant fines and penalties, criminal prosecution and similar actions that could limit product sales, delay product shipment and harm our profitability. Congress could amend the Federal Food, Drug, and Cosmetic Act, and the FDA could modify its regulations promulgated under this law in a way to make ongoing regulatory compliance more burdensome and difficult.

Additionally, any modification to an FDA 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance. Modifications to a PMA approved device or its labeling may require either a new PMA or PMA supplement approval, which could be a costly and lengthy process. In the future, we may modify our products after they have received clearance or approval, and we may determine that new clearance or approval is unnecessary. We cannot assure you that the FDA would agree with any of our decisions not to seek new clearance or approval. If the FDA requires us to seek clearance or approval for any modification, we could be subject to enforcement sanctions and we also may be required to cease marketing or recall the modified product until we obtain FDA clearance or approval which could also limit product sales, delay product shipment and harm our profitability.

In many foreign countries in which we market our products, we are subject to regulations affecting, among other things, product standards, packaging requirements, labeling requirements, import restrictions, tariff regulations, duties and tax requirements. Many of these regulations are similar to those of the FDA. In addition, in many countries the national health or social security organizations require our products to be qualified before procedures performed using our products become eligible for reimbursement. Failure to receive, or delays in the receipt of, relevant foreign qualifications could have a material adverse effect on our business, financial condition and results of operations. Due to the movement toward harmonization of standards in the European Union, we expect a changing regulatory environment in Europe characterized by a shift from a country-by-country regulatory system to a European Union-wide single regulatory system. We cannot predict the

timing of this harmonization and its effect on us. Adapting our business to changing regulatory systems could have a material adverse effect on our business, financial condition, and results of operations. If we fail to comply with applicable foreign regulatory requirements, we may be subject to fines, suspension, or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.

Our suppliers, subcontractors, or we may fail to comply with the FDA quality system regulation.

Our manufacturing processes must comply with the FDA's quality system regulation, or QSR, which covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging and shipping of our products. The FDA enforces the QSR through inspections. We cannot assure you that we or our suppliers or subcontractors would pass such an inspection. If we or our suppliers or subcontractors fail to remain in compliance with the FDA or ISO 9001 standards, we or they may be required to cease all or part of our operations for some period of time until we or they can demonstrate that appropriate steps have been taken to comply with such standards or face other enforcement action, such as a public warning letter. We cannot be certain that our facilities or those of our suppliers or subcontractors will comply with the FDA or ISO 9001 standards in future audits by regulatory authorities. Failure to pass such an inspection could force a shut down of manufacturing operations, a recall of our products or the imposition of other enforcement sanctions, which would significantly harm our revenue and profitability. Further, we cannot assure you that our key component suppliers are or will continue to be in compliance with applicable regulatory requirements and will not encounter any manufacturing difficulties. Any failure to comply with the FDA's QSR by us or our suppliers could significantly harm our available inventory and product sales.

Software or other defects may be discovered in our products.

Our products incorporate many components, including sophisticated computer software. Complex software frequently contains errors, especially when first introduced. Because our products are designed to be used to perform complex interventional procedures, we expect that physicians and hospitals will have an increased sensitivity to the potential for software defects. We cannot assure you that our software or other components will not experience errors or performance problems in the future. If we experience software errors or performance problems, we would likely also experience:

- loss of revenue;
- delay in market acceptance of our products;
- damage to our reputation;
- additional regulatory filings;
- product recalls;
- increased service or warranty costs; and/or
- product liability claims relating to the software defects.

If we fail to comply with health care regulations, we could face substantial penalties and our business, operations and financial condition could be adversely affected.

While we do not control referrals of health care services or bill directly to Medicare, Medicaid or other third-party payors, many health care laws and regulations apply to our business. We could be subject to health care fraud and patient privacy regulation by both the federal government and the states in which we conduct our business. The regulations that may affect our ability to operate include:

- the federal healthcare program Anti-Kickback Law, which prohibits, among other things, persons from soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal health care programs such as the Medicare and Medicaid programs;

- federal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, and which may apply to entities like us which provide coding and billing advice to customers;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which prohibits executing a scheme to defraud any health care benefit program or making false statements relating to health care matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information;
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts; and
- federal self-referral laws, such as STARK, which prohibits a physician from making a referral to a provider of certain health services with which the physician or the physician's family member has a financial interest.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, loss of reimbursement for our products under federal or state government health programs such as Medicare and Medicaid and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment, or restructuring of our operations could adversely affect our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expense and divert our management's attention from the operation of our business. Moreover, to achieve compliance with applicable federal and state privacy, security, and electronic transaction laws, we may be required to modify our operations with respect to the handling of patient information. Implementing these modifications may prove costly. At this time, we are not able to determine the full consequences to us, including the total cost of compliance, of these various federal and state laws.

The application of state certificate of need regulations and compliance by our customers with federal and state licensing or other international requirements could substantially limit our ability to sell our products and grow our business.

Some states require health care providers to obtain a certificate of need or similar regulatory approval prior to the acquisition of high-cost capital items such as our NIOBE System. In many cases, a limited number of these certificates are available. As a result of this limited availability, hospitals and other health care providers may be unable to obtain a certificate of need for the purchase of our NIOBE System. Further, our sales and installation cycle for the NIOBE System is typically longer in certificate of need states due to the time it takes our customers to obtain the required approvals. In addition, our customers must meet various federal and state regulatory and/or accreditation requirements in order to receive payments from government-sponsored health care programs such as Medicare and Medicaid, receive full reimbursement from third party payors, and maintain their customers. Our international customers may be required to meet similar or other requirements. Any lapse by our customers in maintaining appropriate licensure, certification or accreditation, or the failure of our customers to satisfy the other necessary requirements under government-sponsored health care programs or other requirements could cause our sales to decline.

Hospitals or physicians may be unable to obtain reimbursement from third-party payors for procedures using the NIOBE System, or reimbursement for procedures may be insufficient to recoup the costs of purchasing our products.

We expect that U.S. hospitals will continue to bill various third-party payors, such as Medicare, Medicaid and other government programs and private insurance plans, for procedures performed with our products, including the costs of the disposable interventional devices used in these procedures. If in the future our disposable interventional devices do not fall within U.S. reimbursement categories and our procedures are not reimbursed, or if the reimbursement is insufficient to cover the costs of purchasing our system and related disposable interventional devices, the adoption of our systems and products would be significantly slowed or halted, and we may be unable to generate sufficient sales to support our business. Our success in international markets also depends upon the eligibility of our products for reimbursement through government-sponsored health care payment systems and third-party payors. In both the U.S. and foreign markets, health care cost-containment efforts are prevalent and are expected to continue. These efforts could reduce levels of reimbursement available for procedures involving our products and, therefore, reduce overall demand for our products as well. A failure to generate sufficient sales could have a material adverse impact on our financial condition, results of operations and cash flow.

We may lose our key personnel or fail to attract and retain additional personnel.

We are highly dependent on the principal members of our management, scientific and sales staff. To pursue our plans and accommodate planned growth, we may choose to hire additional personnel. Attracting and retaining qualified personnel will be critical to our success, and competition for qualified personnel is intense. We may not be able to attract and retain personnel on acceptable terms given the competition for qualified personnel among technology and healthcare companies and universities. The loss of personnel or our inability to attract and retain other qualified personnel could harm our business and our ability to compete. In addition, the loss of members of our scientific staff may significantly delay or prevent product development and other business objectives. A loss of key sales personnel could result in a reduction of revenue.

Our growth will place a significant strain on our resources, and if we fail to manage our growth, our ability to develop, market, and sell our products will be harmed.

Our business plan contemplates a period of substantial growth and business activity. This growth and activity will likely result in new and increased responsibilities for management personnel and place significant strain upon our operating and financial systems and resources. To accommodate our growth and compete effectively, we will be required to improve our information systems, create additional procedures and controls and expand, train, motivate and manage our work force. We cannot be certain that our personnel, systems, procedures, and controls will be adequate to support our future operations. Any failure to effectively manage our growth could impede our ability to successfully develop market and sell our products.

We face currency and other risks associated with international sales.

We intend to continue to devote significant efforts to marketing our systems and products outside of the U.S. This strategy will expose us to numerous risks associated with international operations, which could adversely affect our results of operations and financial condition, including the following:

- currency fluctuations that could impact the demand for our products or result in currency exchange losses;
- export restrictions, tariff and trade regulations and foreign tax laws;
- customs duties, export quotas or other trade restrictions;
- economic and political instability; and
- shipping delays.

In addition, contracts may be difficult to enforce and receivables difficult to collect through a foreign country’s legal system.

Risks Related To Our Common Stock

Our principal stockholders continue to own a large percentage of our voting stock, and they have the ability to substantially influence matters requiring stockholder approval.

As of December 31, 2007, our executive officers, directors and individuals or entities affiliated with them beneficially own or control a substantial percentage of the outstanding shares of our common stock. Accordingly, these executive officers, directors and their affiliates, acting as a group, will have substantial influence over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction. These stockholders may also delay or prevent a change of control, even if such a change of control would benefit our other stockholders. This significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on any of our classes of capital stock to date and we currently intend to retain our future earnings to fund the development and growth of our business. In addition, the terms of our loan agreement prohibit us from declaring dividends without the prior consent of our lender. As a result, capital appreciation, if any, of our common stock will be an investor's sole source of gain for the foreseeable future.

Our certificate of incorporation and bylaws, Delaware law and one of our alliance agreements contain provisions that could discourage a takeover.

Our certificate of incorporation and bylaws and Delaware law contain provisions that might enable our management to resist a takeover. These provisions may:

- discourage, delay or prevent a change in the control of our company or a change in our management;
- adversely affect the voting power of holders of common stock; and
- limit the price that investors might be willing to pay in the future for shares of our common stock.

In addition, our alliance with Biosense Webster contains provisions that may similarly discourage a takeover and negatively affect our share price as described above.

Sales of a substantial number of shares of our common stock in the public market, or the perception that they may occur, may depress the market price of our common stock.

Sales of substantial amounts of our common stock in the public market, or the perception that substantial sales may be made, could cause the market price of our common stock to decline. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

Evolving regulation of corporate governance and public disclosure may result in additional expenses and continuing uncertainty.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and NASDAQ Global Market rules are creating uncertainty for public companies. We continue to evaluate and monitor developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional compliance costs we may incur or the timing of such costs. These new or changed laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by courts and regulatory and governing bodies. This could result in continuing

uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Maintaining appropriate standards of corporate governance and public disclosure may result in increased general and administrative expense and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, if we fail to comply with new or changed laws, regulations and standards, regulatory authorities may initiate legal proceedings against us and our business and reputation may be harmed.

Investors may have difficulty evaluating our business and operating results because we are still in the early stages of commercializing our products.

We have been engaged in research and product development since our inception in 1990. Our initial focus was on the development of neurosurgical applications for our technology, and during the first several years following our inception, we devoted our resources primarily to developing prototypes and performing research and development activities in this area. Starting around 1998, we shifted our primary focus to developing applications for our technology to treat cardiovascular disease and, in 2003, began limited commercial shipments of products we developed for treatment in this area. To date, our investments in our products have produced relatively little revenue as compared to our operating expenses on a cumulative basis. Our lack of a significant operating history also impairs an investor's ability to make a comparative evaluation of our products, our prospects, and us.

Our future operating results may be below securities analysts or investors' expectations, which could cause our stock price to decline.

The revenue and income potential of our products and our business model are unproven, and we may be unable to generate significant revenue or grow at the rate expected by securities analysts or investors. In addition, our costs may be higher than we, securities analysts, or investors expect. If we fail to generate sufficient revenue or our costs are higher than we expect, our results of operations will suffer, which in turn could cause our stock price to decline. Our results of operations will depend upon numerous factors, including

- demand for our products;
- the performance of third-party contract manufacturers and component suppliers;
- our ability to develop sales and marketing capabilities;
- the success of our collaborations with Siemens, Philips and Biosense Webster and others;
- our ability to develop, introduce and market new or enhanced versions of our products on a timely basis;
- our ability to obtain regulatory clearances or approvals for our new products; and
- our ability to obtain and protect proprietary rights.

Our operating results in any particular period may not be a reliable indication of our future performance. In some future quarters, our operating results may be below the expectations of securities analysts or investors. If this occurs, the price of our common stock will likely decline.

We expect that the price of our common stock could fluctuate substantially, possibly resulting in class action securities litigation.

We have only been publicly traded since August 12, 2004. A limited number of our shares trade actively in the market. The market price of our common stock will be affected by a number of factors, including:

- actual or anticipated variations in our results of operations or those of our competitors;

- the receipt or denial of regulatory approvals;
- announcements of new products, technological innovations or product advancements by us or our competitors;
- developments with respect to patents and other intellectual property rights;
- changes in earnings estimates or recommendations by securities analysts or our failure to achieve analyst earnings estimates; and
- developments in our industry.

The stock prices of many companies in the medical device industry have experienced wide fluctuations that have often been unrelated to the operating performance of these companies. Following periods of volatility in the market price of a company's securities, stockholders have often instituted class action securities litigation against those companies. Class action securities litigation, if instituted against us, could result in substantial costs and a diversion of our management resources, which could significantly harm our business.

Future issuances of our securities could dilute current shareholders' ownership.

A number of shares of our common stock are subject to stock options, stock appreciation rights and warrants. We may also decide to raise additional funds through public or private debt or equity financing to fund our operations. We cannot predict the effect, if any, that future sales of our common stock, other equity securities or securities convertible into our common stock or other equity securities or the availability of any of the foregoing for future sale, will have on the market price of our common stock or notes. Sales of substantial amounts of our common stock (including shares issued upon the exercise of stock options, stock appreciation rights or the conversion of any convertible securities outstanding now or in the future), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have not received any written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2007 fiscal year and that remain unresolved.

ITEM 2. PROPERTIES

Our primary company facilities are located in St. Louis, Missouri where we lease approximately 64,000 square feet of office and 12,000 square feet of demonstration and assembly space. This space is leased under an agreement that expires in 2015.

We also lease approximately 10,000 square feet in Maple Grove, Minnesota. The Minnesota facility is leased through May 31, 2010.

ITEM 3. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2007.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PRICE RANGE OF COMMON STOCK

Our common stock has been traded on The NASDAQ Global Market under the symbol "STXS" since August 12, 2004. The following table sets forth the high and low sales prices of our common stock for the periods indicated and reported by NASDAQ.

	High	Low
Year Ended December 31, 2007		
First Quarter	$12.76	$ 9.49
Second Quarter	13.55	9.95
Third Quarter	15.77	11.99
Fourth Quarter	16.88	11.90
Year Ended December 31, 2006		
First Quarter	$15.80	$ 8.63
Second Quarter	12.57	8.76
Third Quarter	11.85	8.14
Fourth Quarter	12.73	9.73

As of February 28, 2008, there were approximately 222 stockholders of record of our common stock, although we believe that there is a significantly larger number of beneficial owners of our common stock.

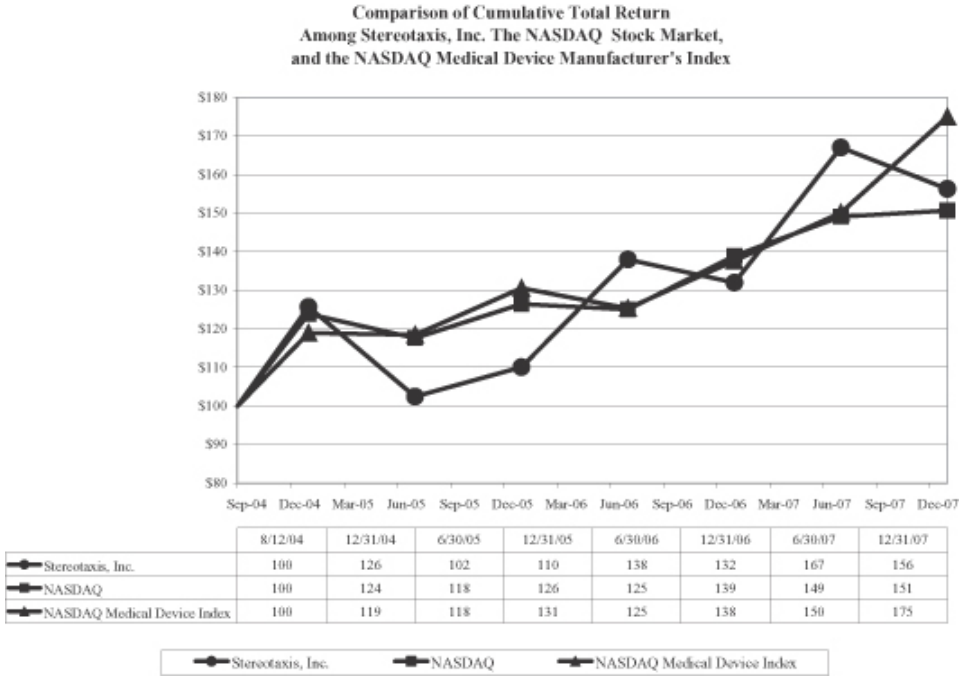
DIVIDEND POLICY

We have never declared or paid any cash dividends. We currently expect to retain earnings for use in the operation and expansion of our business, and therefore do not anticipate paying any cash dividends for the next several years.

The information required by this item regarding equity compensation is incorporated by reference to the information set forth in Item 12 of this Annual Report on Form 10-K.

STOCK PRICE PERFORMANCE GRAPH

The following graph shows the total shareholder return from August 11, 2004, the date of Stereotaxis' initial public offering, through December 31, 2007 for a $100 investment in Stereotaxis, Inc., the NASDAQ Composite (U.S.) Index and the NASDAQ Medical Device Index. All values assume reinvestment of the full amount of all dividends although dividends have never been declared on Stereotaxis' common stock. The stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.



	8/12/04	12/31/04	6/30/05	12/31/05	6/30/06	12/31/06	6/30/07	12/31/07
Stereotaxis, Inc.	100	126	102	110	138	132	167	156
NASDAQ	100	124	118	126	125	139	149	151
NASDAQ Medical Device Index	100	119	118	131	125	138	150	175

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data has been derived from, and should be read in conjunction with our financial statements and the accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report. The selected data in this section is not intended to replace the financial statements. Historical results are not indicative of the results to be expected in the future.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Statements of Operations Data:					
Revenue	$ 39,298,809	$ 27,191,706	$ 15,026,390	$ 18,816,860	$ 5,014,877
Cost of revenue	15,346,220	12,892,749	7,720,706	10,672,262	4,051,313
Gross margin	23,952,589	14,298,957	7,305,684	8,144,598	963,564
Operating costs and expenses:					
Research and development	25,471,809	21,794,177	17,829,282	17,215,414	13,590,922
Sales and marketing	29,021,117	22,533,882	16,106,621	11,447,857	5,999,310
General and administrative	18,701,726	16,642,359	14,449,326	6,900,016	5,323,682
Royalty settlement	—	—	2,923,111	—	—
Total operating expenses	73,194,652	60,970,418	51,308,340	35,563,287	24,913,914
Operating loss	(49,242,063)	(46,671,461)	(44,002,656)	(27,418,689)	(23,950,350)
Interest and other income (expense), net	1,120,549	951,691	444,821	161,220	(86,487)
Net loss	$ (48,121,514)	$ (45,719,770)	$ (43,557,835)	$ (27,257,469)	$ (24,036,837)
Basic and diluted net loss per common share (1)	$ (1.34)	$ (1.39)	$ (1.60)	$ (2.38)	$ (18.37)
Shares used in computing basic and diluted net loss per common share	35,793,973	32,979,403	27,301,822	11,470,310	1,308,805
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 23,656,378	$ 36,983,781	$ 10,735,587	$ 45,648,834	$ 26,480,612
Working capital	21,925,716	40,383,798	15,896,719	50,404,840	22,764,719
Total assets	60,475,794	69,290,660	36,658,189	71,044,697	37,323,419
Long-term debt, less current maturities	6,000,000	305,556	1,972,222	1,000,000	2,243,768
Accumulated deficit	(252,072,353)	(203,950,839)	(158,231,069)	(114,673,234)	(87,415,765)
Total stockholders' equity	24,194,407	44,788,992	18,125,842	58,394,468	25,266,428

(1) The one-for-3.6 reverse stock split effective as of July 2004 has been reflected in the calculation of the basic and diluted net loss per share for all periods presented above.

ITEM 7. 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-K. 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 and capital resources and results of operations. Such statements include, but are not limited to, statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "estimates," "projects," "can," "could," "may," "will," "would," or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not unduly rely on these forward-looking statements, which speak only as of the date on which they were made. They give our expectations regarding the future but are not guarantees. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

Overview

Stereotaxis designs, manufactures and markets 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 NIOBE System is designed to enable physicians to complete more complex interventional procedures by providing image guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures and reduced x-ray exposure. In addition to the Niobe System and its components, Stereotaxis also has developed the Odyssey™ information management system, which consolidates the multiple sources of diagnostic and imaging information found in the interventional lab into a large-screen user interface with single mouse control, which can be connected via a private network line to other interventional labs or to a remote clinical call center. The core components of the NIOBE System have received regulatory clearance in the U.S., Canada Europe, China and various other countries.

We believe that our system 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 system is the only technology to be commercialized that allows remote, computerized control of catheters and guidewires directly at their working tip. 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.

From our inception in June 1990 through 2002, our principal activities were obtaining capital, business development, performing research and development activities, funding prototype development, funding clinical trials and funding collaborations to integrate our products with other interventional technologies. Accordingly, we were classified as a development stage company for accounting purposes through December 31, 2002.

Our initial focus was on the development of neurosurgical applications for our technology, including delivery of devices to specific sites within the brain. During that time, we primarily devoted our resources to developing prototypes and performing research and development activities in this area. Following receipt of FDA

approval to begin human clinical trials in the field of brain biopsies, we successfully completed our initial human clinical procedures in this area in late 1998. Over the next two years, we shifted our primary focus to developing applications for our technology to treat cardiovascular diseases because of the significantly larger market opportunities for these applications. During 2003, following receipt of marketing clearance from the FDA for our current system, we emerged from the development stage and began to generate revenue from the placement of investigational systems and the commercial launch of our cardiology system in the U.S. and Europe.

In August 2004, we completed an initial public offering in which we issued and sold 5,500,000 shares of our common stock at $8.00 per share. In September 2004, the underwriters exercised an option to purchase 462,352 additional shares. In connection with the initial public offering (including the over-allotment option exercise), we received approximately $41.4 million in net proceeds. In February 2006, we completed an underwritten take-down of our common stock from our shelf registration in which we issued and sold 5,500,000 shares of our common stock at $12.00 per share including the underwriters' exercise of their option to purchase an additional 500,000 shares. In conjunction with the February 2006 shelf take-down, we received approximately $61.7 million in net proceeds. In March 2007, we completed an offering of 1,919,000 shares of our common stock at $10.50 per share. In conjunction with this transaction, we received approximately $20.1 million in net proceeds after deducting offering expenses.

Since our inception, we have generated significant losses. As of December 31, 2007, we had incurred cumulative net losses in excess of $252 million. We expect to incur additional losses into 2008 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund our sales and marketing initiatives. We believe that by the end of 2009, we will be positioned to achieve break-even operating performance.

We have alliances with each of Siemens AG Medical Solutions, Philips Medical Systems and Biosense Webster, Inc., through which we integrate our NIOBE System with market leading digital imaging and 3D catheter location sensing technology, as well as disposable interventional devices, in order to continue to develop new solutions in the interventional lab. Each of these alliances provides for coordination of our sales and marketing activities with those of our partners. In addition, Siemens has agreed to provide worldwide service for our integrated systems.

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, revenue 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.

Revenue Recognition

For arrangements with multiple deliverables, we allocate the total revenue to each deliverable based on the provisions of Staff Accounting Bulletin (SAB) 104 *Revenue Recognition* and Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, and recognize revenue for each separate element as the criteria are met. Under EITF 00-21, we are required to continually evaluate whether we have separate units of accounting for deliverables within certain contractual arrangements we have made with customers, specifically as it relates to the sale and installation of our magnetic navigation system. Prior to the quarter ended June 30, 2007, we had met the first criterion for separation of multiple elements under EITF 00-21, which was that the NIOBE System has stand-alone value but had not yet accumulated sufficient evidence to support the determination of fair value on the undelivered installation element. By the second quarter of 2007, we had accumulated sufficient experience to conclude that installation had been and could be performed by several independent vendors such that fair value could be determined. As such, we determined in the second quarter of

2007 that installation met the criteria under SAB 104 and EITF Issue No. 00-21 for recognition as a separate element or unit of accounting and began to recognize revenue on the delivery and installation of the NIOBE System as two separate elements.

Under our revenue recognition policy, revenue for system sales is recognized for the portion of sales price due upon delivery, provided delivery has occurred, 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. The balance of the sales price due upon installation is recognized as revenue when the standard installation process is complete. 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. If uncertainties exist regarding collectability, we recognize revenue when those uncertainties are resolved. 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 multi-element 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 an appropriate reserve for returns is established. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimus affect on revenue recognized in the period. The Company believes that the estimate is not likely to change significantly in the future.

Stock-based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of Financial Accounting Standards Board Statement No. 123(R), "*Share-Based Payment*" ("SFAS 123(R)"), using the modified prospective transition method to account for its grants of stock options, stock appreciation rights, restricted shares and share purchases under our employee stock purchase plan. Prior to January 1, 2006, we accounted for those plans under the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for stock-based employee compensation as permitted by SFAS 123, *Accounting for Stock-Based Compensation.* SFAS 123(R) supersedes APB Opinion No. 25 and requires 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.

Stock compensation expense, which is a non-cash charge, results from stock option and stock appreciation rights grants made to employees, directors and consultants at the fair value of the option granted, from grants of restricted shares to employees and from share purchases by employees under our employee stock purchase plan. The fair value of options and stock appreciation rights granted was determined using the Black-Scholes valuation method which gives consideration to the estimated value of the underlying stock at the date of grant, the exercise price of the option, the expected dividend yield and volatility of the underlying stock, the expected life of the option and the corresponding risk-free interest rate. When we were a private company, the deemed fair value of the underlying common stock was determined by management and the Board of Directors based on their best estimates using information from preferred stock financing transactions or other significant changes in the business. The fair value of the grants of restricted shares, all of which were granted after we became a public company, was determined based on the closing price of our stock on the date of grant. Stock compensation expense for options, stock appreciation rights and for time-based restricted share grants is amortized on a straight-line basis over the vesting period of the underlying issue, generally over four years except for grants to directors which generally vest over one to two years. Stock compensation expense for performance-based restricted shares is amortized on a straight-line basis over the anticipated vesting period and is subject to adjustment based on the actual achievement of objectives. Compensation expenses related to option grants to non-employees is periodically remeasured through the vesting date. Compensation expense is recognized only for those options expected to vest, net of estimated forfeitures. Estimates of the expected life of options has been based on the average of the vesting and expiration periods, the simplified method under SFAS 123R. Estimates

of volatility and forfeiture rates utilized in calculating stock based compensation have been prepared based on historical data and future expectations and actual experience to date has been consistent with these estimates.

The amount of compensation expense to be recorded in future periods may increase if we make additional grants of options, stock appreciation rights or restricted shares or if employees continue to purchase shares under our employee stock purchase plan or if we determine that actual forfeiture rates are less than anticipated. The amount of expense to be recorded in future periods may decrease if we do not achieve the performance objectives by which certain restricted shares are contingent, if the requisite service periods are not completed or if the actual forfeiture rates are greater than anticipated.

Additional detail regarding the adoption of SFAS 123(R) may be found in the notes to the financial statements which are included elsewhere in this Annual Report on Form 10-K.

Valuation of Inventory

We value our inventory at the lower of the actual cost of our inventory, as determined using the first-in, first-out (FIFO) method, or its current estimated market value. We periodically review our physical inventory for excess, obsolete items and potential impaired items and reserve accordingly. Our reserve estimate for excess and obsolete is based on expected future use. Our reserve estimates have historically been consistent with our actual experience as evidenced by actual disposal of the goods.

Deferred Income Taxes

We account for income taxes under the provisions of SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. We have established a valuation allowance against the entire amount of our deferred tax assets because we are not able to conclude, due to our history of operating losses, that it is more likely than not that we will be able to realize any portion of the deferred tax assets.

In assessing whether and to what extent deferred tax assets are realizable, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable losses, limitations imposed by Section 382 of the Internal Revenue Code and projections for future losses over periods which the deferred tax assets are deductible, we determined that a 100% valuation allowance of deferred tax assets was appropriate.

Results of Operations

Comparison of the Years ended December 31, 2007 and 2006

Revenue. Revenue increased to $39.3 million for the year ended December 31, 2007 from $27.2 million for the year ended December 31, 2006, an increase of approximately 45%. Revenue from sales of systems increased to $30.1 million for the year ended December 31, 2007 from $22.7 million for the year ended December 31, 2006, an increase of approximately 33%. Revenue from the sale of systems increased primarily because we sold 27 systems in 2007 compared to 23 systems in 2006. In addition, the average selling price of systems increased approximately 15% in 2007 as contrasted with 2006. Revenue from sales of disposable interventional devices, service and accessories increased to $9.2 million for the year ended December 31, 2007 from $4.5 million for the year ended December 31, 2006, an increase of approximately 102%. This increase was attributable to the increased base of installed systems.

Cost of Revenue. Cost of revenue increased to $15.3 million for the year ended December 31, 2007 from $12.9 million for the year ended December 31, 2006, an increase of approximately 19%. Cost of revenue for systems sold increased to $11.0 million for the year ended December 31, 2007 from $10.4 million for the year ended December 31, 2006, an increase of approximately 5%. This increase in cost of revenue was attributable to the number of systems sold, offset by a 10% reduction in the associated unit cost of goods sold for those systems. In addition, cost of revenue includes the effect of a $1.9 million adjustment in 2007 to the carrying value of the first generation Niobe system in inventory. Cost of revenue for disposable interventional devices, service and accessories increased to $2.5 million for the year ended December 31, 2007 from $2.4 million for the year ended December 31, 2006 an increase of approximately 2%. This increase was due to the larger installed base generating increased volumes of disposable devices, service and other revenues. As a percentage of our revenue, cost of revenue was approximately 39% in the year ended December 31, 2007 or 34% excluding the adjustment to the carrying value of the Niobe system compared to 47% in the year ended December 31, 2006 due principally to the increase in the average selling price of systems and increase in disposable devices and service activity. The improved margin for disposable interventional devices, service and accessories related to the absorption of fixed overhead spending over significantly higher disposables, service and software revenues as well the increase in royalty income.

Research and Development Expense. Research and development expense increased to $25.5 million for the year ended December 31, 2007 from $21.8 million for the year ended December 31, 2006, an increase of approximately 17%. The increase was related to continued catheter development, the Odyssey information management system and other projects.

Sales and Marketing Expense. Sales and marketing expense increased to $29.0 million for the year ended December 31, 2007 from $22.5 million for the year ended December 31, 2006, an increase of approximately 29%. The increase related primarily to increased salary, benefits and travel expenses associated with hiring additional sales personnel and expanded marketing programs.

General and Administrative Expense. General and administrative expense increased to $18.7 million for the year ended December 31, 2007 from $16.6 million for the year ended December 31, 2006, an increase of approximately 12%. The increase relates to expanded activity in training, clinical affairs and increased personnel costs.

Interest Income. Interest income decreased approximately 31% to $1.5 million for the year ended December 31, 2007 from $2.1 million for the year ended December 31, 2006. Interest income decreased due principally to lower average invested balances during 2007.

Interest Expense. Interest expense decreased approximately 70% to $0.4 million for the year ended December 31, 2007 from $1.2 million for the year ended December 31, 2006. Interest expense decreased primarily due to the amortization of commitment fees related to the affiliate line of credit impacting the 2006 year.

Comparison of the Years ended December 31, 2006 and 2005

Revenue. Revenue increased to $27.2 million for the year ended December 31, 2006 from $15.0 million for the year ended December 31, 2005, an increase of approximately 81%. Revenue from sales of systems increased to $22.7 million for the year ended December 31, 2006 from $12.8 million for the year ended December 31, 2005, an increase of approximately 78%. Revenue from the sale of systems increased primarily because we sold 23 systems in 2006 compared to 13 systems in 2005. Average selling price increased approximately 11% in 2006 as contrasted with 2005. Revenue from sales of disposable interventional devices, service and accessories increased to $4.5 million for the year ended December 31, 2006 from $2.3 million for the year ended December 31, 2005, an increase of approximately 100%. This increase was attributable to the increased base of installed systems.

Cost of Revenue. Cost of revenue increased to $12.9 million for the year ended December 31, 2006 from $7.7 million for the year ended December 31, 2005, an increase of approximately 67%. Cost of revenue for systems sold increased to $10.4 million for the year ended December 31, 2006 from $6.0 million for the year ended December 31, 2005, an increase of approximately 75%. This increase in cost of revenue was attributable primarily to the increased number of systems sold and associated cost of goods sold for those systems**.** Cost of revenue for disposable interventional devices, service and accessories increased to $2.4 million for the year ended December 31, 2006 from $1.8 million for the year ended December 31, 2005 an increase of approximately 39%. This increase was due to the larger installed base generating increased volumes of disposable devices, service and other revenues. As a percentage of our revenue, cost of revenue was 47% in the year ended December 31, 2006 compared to 51% in the year ended December 31, 2005 due principally to an increase in the average selling price. The improved margin for disposable interventional devices, service and accessories related to increases in software and service plans, consistent with this growth in the installed base of systems and improved absorption of the underlying costs.

Research and Development Expense. Research and development expense increased to $21.8 million for the year ended December 31, 2006 from $17.8 million for the year ended December 31, 2005, an increase of approximately 22%. The increase was due principally to an increase in the research and development projects, including continued integration and development related to disposable interventional devices, further development of the NIOBE platform technology, as well as user interface improvements.

Sales and Marketing Expense. Sales and marketing expense increased to $22.5 million for the year ended December 31, 2006 from $16.1 million for the year ended December 31, 2005, an increase of approximately 40%. The increase related primarily to increased salary, benefits and travel expenses associated with hiring additional sales personnel and expanded marketing programs.

General and Administrative Expense. General and administrative expense increased to $16.6 million for the year ended December 31, 2006 from $14.4 million for the year ended December 31, 2005, an increase of approximately 15%. The increase relates to increased stock compensation costs due to the adoption of SFAS 123(R) and expanded activity in training, clinical compliance and regulatory affairs.

Royalty Settlement. Royalty settlement expense related to the resolution of a patent licensing dispute with the University of Virginia was $2.9 million for the year ended December 31, 2005. There was no such settlement expense in 2006.

Interest Income. Interest income increased approximately 124% to $2.1 million for the year ended December 31, 2006 from $950,000 for the year ended December 31, 2005. Interest income increased due to higher invested balances due to our February 2006 take-down and higher realized rates on investments during the year ended December 31, 2006.

Interest Expense. Interest expense increased approximately 133% to $1.2 million for the year ended December 31, 2006 from $505,000 for the year ended December 31, 2005. Interest expense increased primarily due to the amortization of commitment fees related to the affiliate line of credit entered into in the fourth quarter of 2005.

Income Taxes

Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain. Accordingly, net deferred tax assets have been fully offset by valuation allowances as of December 31, 2007, 2006 and 2005 to reflect these uncertainties. As of December 31, 2007, we had federal and state net operating loss carryforwards of approximately $229 million of which approximately $3.5 million will expire between 2008 and 2011 and approximately $225 million will expire between 2012 and 2027. We may not be able to utilize certain of these loss carryforwards prior to their expiration.

Liquidity and Capital Resources

Prior to our initial public offering, we financed our operations almost entirely from the private sale of equity securities, totaling approximately $127 million net of offering expenses. To a much lesser extent, we also financed our operations through working capital and equipment financing loans. We raised funds from these sources because, as a developing company, we were not able to fund our activities solely from the cash provided by our operations.

In August 2004, we completed an initial public offering in which we issued and sold 5,500,000 shares of common stock. In September 2004, the underwriters exercised their option to purchase an additional 462,352 shares. In connection with the initial public offering and over-allotment exercise, we received approximately $41.4 million in net proceeds.

In February 2006, we completed an underwritten take-down of our common stock from our shelf registration in which we issued and sold 5,500,000 shares of our common stock at $12.00 per share including the underwriters' exercise of their option to purchase an additional 500,000 shares. In conjunction the February 2006 shelf take-down, we received approximately $61.7 million in net proceeds. Since our inception, we have generated significant losses.

In August 2006, we filed a universal shelf registration statement for the issuance and sale from time to time to the public of up to $75 million in securities, including debt, preferred stock, common stock and warrants. The shelf registration was declared effective by the SEC in September 2006. In March 2007 we sold approximately 1.9 million shares in a registered direct offering, raising approximately $20.1 million. As of December 31, 2007, approximately $55 million remaining availablity under the shelf registration statement.

In February 2008 we entered into a Note and Warrant Purchase Agreement with two current shareholders, providing for a $20 million commitment of funds to be provided either as direct loans to us or as a guaranty of amounts borrowed by us under our working capital facility with our primary lending bank. In connection with this transaction, we amended our loan agreement with Silicon Valley Bank to increase availability under the working capital line to $30 million subject to qualifying receivable and inventory balance limitations, including up to $10 million to be secured by guarantees from the two shareholders, and to extend the maturity of the line to March 31, 2009.

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, as well as short-term investments. In addition to our cash and cash equivalent balances, we maintained $6.6 million and $21.8 million of investments in some or all of corporate debt securities, U.S. government agency notes, commercial paper certificates of deposit and auction rate securities at December 31, 2007 and 2006, respectively.

The following table summarizes our cash flow by operating, investing and financing activities for each of years ended December 31, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Cash Flow (used in) Operating Activities	$(35,713)	$(38,983)	$(40,986)
Cash Flow provided by (used in) Investing Activities	10,596	(16,394)	25,052
Cash Flow provided by Financing Activities	26,929	66,988	2,625

Net cash used in operating activities. We used approximately $35.7 million, $39.0 million and $41.0 million of cash in operating activities during the years ended December 31, 2007, 2006 and 2005, respectively, primarily as a result of operating losses during these periods. Cash generated from operating assets and liabilities purposes increased to $3.3 million during the year ended December 31, 2007 from $755,000 generated during the year ended December 31, 2006 primarily as a result of an overall increase in general liabilities and in deferred revenue related to systems on which revenue has not yet been recognized and an increase in prepaid expenses related to certain development projects offset by an increase in accounts receivable.

Net cash provided by (used in) investing activities. We generated approximately $10.6 million of cash from investing activities during the year ended December 31, 2007 compared to $16.4 million used by investing activities during the year ended December 31, 2006 and $25.0 million generated during the year ended December 31, 2005. The cash generated from 2007 investing activities was substantially from the sale of investments. The cash used for 2006 investing activities was principally for the purchase of investments. The cash generated from 2005 investing activities was substantially from the sale of investments. We used $4.7 million during the year ended December 31, 2007 for the purchase of property and equipment compared to $2.3 million in each of 2006 and 2005.

Net cash provided by financing activities. We realized approximately $26.9 million from financing activities during the year ended December 31, 2007 principally from the sale of our common stock in which we realized approximately $20.1 million in net proceeds and from a $5.0 million borrowing under the our line of credit. We realized approximately $67.0 million from financing activities during the year ended December 31, 2006 principally from the sale of our common stock in which we realized approximately $61.7 million in net proceeds. We realized approximately $2.6 million from financing activities during the year ended December 31, 2005 including $1.1 million in proceeds from the issuance of long-term debt from our equipment and revolving credit facilities, net of repayments and $1.6 million from the issuance of stock as a result of exercises of warrants and options.

At December 31, 2007, we had working capital of approximately $21.9 million, compared to $40.4 million at December 31, 2006.

As of December 31, 2007, we had outstanding balances under various equipment loan agreements, consisting of an aggregate of approximately $2.0 million. As of December 31, 2007, we had $5.0 million outstanding under our $25 million working capital line of credit and had borrowing capacity of $13.9 million, subject to collateralization by qualifying receivables and inventory balances.

These credit facilities are secured by substantially all of our assets. The credit agreements include customary affirmative, negative and financial covenants. For example, we are restricted from incurring additional debt, disposing of or pledging our assets, entering into merger or acquisition agreements, making certain investments, allowing fundamental changes to our business, ownership, management or business locations, and from making certain payments in respect of stock or other ownership interests, such as dividends and stock repurchases. Under our loan arrangements, as modified in February 2008, we are required to maintain a various levels of “tangible net worth” as defined in the loan agreement, including a requirement of $5 million in tangible net worth, as defined, at the end of any calendar quarter during the term of the revised agreement. We are also required under the credit agreements to maintain our primary operating account and the majority of our cash and investment balances in accounts with the lender. As of December 31, 2007, we were in compliance with all covenants of this agreement.

We expect to have negative cash flow from operations through 2008. Throughout 2008, we expect to continue the development and commercialization of our existing products and our research and development programs and the advancement of new products into clinical development. We expect that our research and development expenditures will decrease in 2008 and our selling, general and administrative expenses will continue to increase in order to support our product commercialization efforts. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with existing cash resources that were primarily generated from the proceeds of our public offerings, private sales of our equity securities and working capital and equipment financing loans. In the future, we may finance future cash needs through the sale of other equity securities, strategic collaboration agreements and debt financings. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors outside of our control.

While we believe our existing cash, cash equivalents and investments, and borrowing facilities will be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months, we

cannot ensure that we will not require additional financing before that time. We also cannot ensure that such additional financing will be available on a timely basis on terms acceptable to us or at all, or that such financing will not be dilutive to our stockholders. If adequate funds are not available to us, we could be required to delay development or commercialization of new products, to license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize ourselves or to reduce the sales, marketing, customer support or other resources devoted to our products, any of which could have a material adverse effect on our business, financial condition and results of operations.

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 arise if we had engaged in these relationships.

Contractual Obligations

The following table summarizes all significant contractual payment obligations by payment due date:

	Payments by Period				
Contractual Obligations	Under 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	Total
	(In thousands)				
Long-term debt (1)	$ 972	$ 6,000	$ —	$ —	$ 6,972
Operating leases	1,439	3,048	3,006	4,656	12,149
Capital leases	10	17	11	—	38
Research and alliance agreements	209	263	—	—	472
Total	$ 2,630	$ 9,328	$ 3,017	$ 4,656	$ 19,631

(1) We have not included interest payable on our term notes or our revolving credit agreement in these amounts because the interest on these obligations is calculated at a variable rate.

Commercial Commitments

We have entered into two letters of credit to support certain purchase and other commitments in the amount of approximately $2.7 million which expire in 2008.

As of December 31, 2007 we had a line of credit with our primary lender which had a maximum borrowing capacity of up to $25,000,000, which was amended in February 2008 as described in Note 18 to our financial statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We have exposure to currency fluctuations. We operate mainly in the U.S., Europe and Asia and we expect to continue to sell our products both within and outside of the U.S. We expect to transact this business primarily in U.S. dollars and in Euros, although we may transact business in other currencies to a lesser extent. Future fluctuations in the value of these currencies may affect the price competitiveness of our products. In addition, because we have a relatively long installation cycle for our systems, we will be subject to risk of currency fluctuations between the time we execute a purchase order and the time we deliver the system and collect payments under the order, which could adversely affect our operating margins. We have not hedged exposures in foreign currencies or entered into any other derivative instruments. As a result, we will be exposed to some exchange risks for foreign currencies. For example, if the currency exchange rate were to fluctuate by 10%, we believe that our revenue could be affected by as much as 2 to 3%.

We have exposure to market risk related to our investments, particularly auction rate securities. At December 31, 2007 we held approximately $500,000 in auction rate securities. Auction rate securities are private placement securities with long-term maturities for which the interest rates are reset through a Dutch auction each month. We only invest in auction rate securities with AAA/Aaa ratings at the time of purchase. Although the monthly auctions have historically provided a liquid market for these securities, the recent liquidity issues experienced in the auction rate securities market might make it impossible for us to liquidate our holdings or require that we sell the securities at a substantial loss.

We also have exposure to interest rate risk related to our investment portfolio and our borrowings. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our invested cash without significantly increasing the risk of loss.

Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term debt instruments. We invest our excess cash primarily in U.S. government securities and marketable debt securities of financial institutions and corporations with strong credit ratings. These instruments generally have maturities of two years or less when acquired. We do not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions. Accordingly, we believe that while the instruments we hold are subject to changes in the financial standing of the issuer of such securities, we are not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive instruments.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements

Index To Financial Statements

All other schedules have been omitted because they are not applicable or the required information is shown in the Financial Statements or the Notes thereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Stereotaxis, Inc.

We have audited the accompanying balance sheets of Stereotaxis, Inc. (the Company) as of December 31, 2007 and 2006, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stereotaxis, Inc. at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the financial statements, on January 1, 2006, the Company changed its method of accounting for share-based payments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stereotaxis, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young, LLP

St. Louis, Missouri
March 13, 2008

STEREOTAXIS, INC.

BALANCE SHEETS

	December 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 17,022,200	$ 15,210,493
Short-term investments	6,634,178	21,773,288
Accounts receivable, net of allowance of $189,040 and $90,716 in 2007 and 2006, respectively	13,757,270	15,280,628
Current portion of long-term receivables	136,430	163,362
Inventories	9,964,460	8,285,825
Prepaid expenses and other current assets	3,421,202	2,580,773
Total current assets	50,935,740	63,294,369
Property and equipment, net	7,011,763	4,130,295
Intangible assets, net	1,411,111	1,544,444
Long-term receivables	272,859	—
Other assets	844,321	321,552
Total assets	$ 60,475,794	$ 69,290,660
Liabilities and stockholders' equity		
Current liabilities:		
Current maturities of long-term debt	$ 972,222	$ 1,666,666
Accounts payable	7,349,426	5,555,121
Accrued liabilities	11,913,418	10,025,231
Deferred contract revenue	8,774,958	5,663,553
Total current liabilities	29,010,024	22,910,571
Long-term debt, less current maturities	6,000,000	305,556
Long-term deferred contract revenue	942,573	1,220,174
Other liabilities	328,790	65,367
Stockholders' equity:		
Preferred stock, par value $0.001; 10,000,000 shares authorized at 2007 and 2006, none outstanding at 2007 and 2006	—	—
Common stock, par value of $0.001; 100,000,000 shares authorized at 2007 and 2006, 37,132,529 and 34,755,397 shares issued at 2007 and 2006, respectively	37,133	34,755
Additional paid in capital	276,433,662	248,908,918
Treasury stock, 40,151 shares at 2007 and 2006	(205,999)	(205,999)
Accumulated deficit	(252,072,353)	(203,950,839)
Accumulated other comprehensive income	1,964	2,157
Total stockholders' equity	24,194,407	44,788,992
Total liabilities and stockholders' equity	$ 60,475,794	$ 69,290,660

See accompanying notes.

STEREOTAXIS, INC.

STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2007	2006	2005
Revenue:			
Systems	$ 30,118,627	$ 22,656,092	$ 12,760,593
Disposables, service and accessories	9,180,182	4,535,614	2,265,797
Total revenue	39,298,809	27,191,706	15,026,390
Cost of revenue:			
Systems	10,978,108	10,448,772	5,965,252
Disposables, service and accessories	2,497,459	2,443,977	1,755,454
Inventory impairment	1,870,653	—	—
Total cost of revenue	15,346,220	12,892,749	7,720,706
Gross margin	23,952,589	14,298,957	7,305,684
Operating expenses:			
Research and development	25,471,809	21,794,177	17,829,282
Sales and marketing	29,021,117	22,533,882	16,106,621
General and administrative	18,701,726	16,642,359	14,449,326
Royalty settlement	—	—	2,923,111
Total operating expenses	73,194,652	60,970,418	51,308,340
Operating loss	(49,242,063)	(46,671,461)	(44,002,656)
Interest income	1,471,503	2,126,987	949,918
Interest expense	(350,954)	(1,175,296)	(505,097)
Net loss	$ (48,121,514)	$ (45,719,770)	$ (43,557,835)
Net loss per common share:			
Basic and diluted	$ (1.34)	$ (1.39)	$ (1.60)
Weighted average shares used in computing net loss per common share:			
Basic and diluted	35,793,973	32,979,403	27,301,822

See accompanying notes.

STEREOTAXIS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Treasury Stock	Notes Receivable from Sale of Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount							
Balance at December 31, 2004	27,187,042	$ 27,187	$174,143,587	$ (671,950)	$(162,546)	$ (173,432)	$(114,673,234)	$ (95,144)	$ 58,394,468
Issuance of warrants to purchase common stock			938,850						938,850
Amortization of stock-based compensation				747,412					747,412
Payments of notes receivable from sale of stock						3,750			3,750
Interests receivable from sale of stock						(10,937)			(10,937)
Issuance of stock under stock purchase plan	29,554	30	201,097						201,127
Exercise of stock warrants	14,888	15	(15)						—
Exercise of stock options	282,527	282	1,358,193						1,358,475
Grant of restricted shares, net of forfeitures	359,100	359	2,644,863	(2,645,222)					—
Components of comprehensive income (loss):									
Net Loss							(43,557,835)		(43,557,835)
Unrealized gain on short term investments								50,532	50,532
Comprehensive Loss									(43,507,303)
Balance at December 31, 2005	27,873,111	$ 27,873	$179,286,575	$ (2,569,760)	$(162,546)	$ (180,619)	$(158,231,069)	$ (44,612)	$ 18,125,842
Balance at December 31, 2005	27,873,111	27,873	179,286,575	(2,569,760)	(162,546)	(180,619)	(158,231,069)	(44,612)	18,125,842
Adoption of SFAS 123(R)			(2,569,760)	2,569,760					—
Issuance common stock	5,500,000	5,500	61,746,903						61,752,403
Amortization of stock-based compensation			4,301,807						4,301,807
Payments of notes receivable from sale of stock						134,700			134,700
Interests receivable from the sale of stock						45,919			45,919
Issuance of stock under stock purchase plan	74,917	75	574,507						574,582
Purchase of treasury stock, at cost					(43,453)				(43,453)
Exercise of stock warrants	638,472	638	4,264,909						4,265,547
Exercise of stock options and stock appreciation rights	325,893	326	1,304,320						1,304,646
Grant of restricted shares, net of forfeitures	343,004	343	(343)						—
Components of comprehensive income (loss):									
Net Loss							(45,719,770)		(45,719,770)
Unrealized gain on short term investments								46,769	46,769
Comprehensive Loss									(45,673,001)
Balance at December 31, 2006	34,755,397	$ 34,755	$248,908,918	$ —	$(205,999)	$ —	$(203,950,839)	$ 2,157	$ 44,788,992

See accompanying notes.

STEREOTAXIS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY—(CONTINUED)

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Treasury Stock	Notes Receivable from Sale of Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount							
Balance at December 31, 2006	34,755,397	$ 34,755	$248,908,918	$ —	$(205,999)	$ —	$(203,950,839)	$ 2,157	$ 44,788,992
Issuance common stock	1,919,000	1,919	20,105,317						20,107,236
Amortization of stock-based compensation			5,597,800						5,597,800
Issuance of stock under stock purchase plan	62,254	63	502,308						502,371
Exercise of stock warrants	93,050	93	373,381						373,474
Exercise of stock options and stock appreciation rights	210,745	211	946,030						946,241
Grant of restricted shares, net of forfeitures	92,083	92	(92)						—
Components of comprehensive income (loss):									
Net Loss							(48,121,514)		(48,121,514)
Unrealized (loss) on short term investments								(193)	(193)
Comprehensive Loss									(48,121,707)
Balance at December 31, 2007	37,132,529	$ 37,133	$276,433,662	$ —	$(205,999)	$ —	$(252,072,353)	$ 1,964	$ 24,194,407

See accompanying notes.

STEREOTAXIS, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities			
Net loss	$ (48,121,514)	$ (45,719,770)	$ (43,557,835)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation	1,752,471	1,214,280	769,617
Amortization (accretion)	(131,820)	387,480	397,070
Non-cash compensation	5,597,800	4,301,807	747,412
Interest receivable from sale of stock	—	48,992	—
Loss on asset disposal	9,797	29,658	48,783
Inventory impairment charge	1,870,653	—	—
Changes in operating assets and liabilities:			
Accounts receivable	1,523,358	(9,383,556)	2,542,002
Interest receivable on investments	164,455	(74,708)	150,359
Other receivables	(245,927)	444,678	(101,655)
Inventories	(3,549,288)	1,118,967	(4,730,798)
Prepaid expenses and other current assets	(840,429)	1,873,767	(2,064,410)
Other assets	(522,769)	(193,797)	(7,058)
Accounts payable	1,794,305	688,965	2,736,683
Accrued liabilities	1,888,187	4,376,538	81,536
Deferred revenue	2,833,804	1,866,467	1,975,502
Other	263,423	37,351	26,609
Net cash used in operating activities	(35,713,494)	(38,982,881)	(40,986,183)
Cash flows from investing activities			
Sale of equipment	100,640	10,072	—
Purchase of equipment	(4,744,376)	(2,305,992)	(2,338,866)
Proceeds from the maturity/sale of available-for-sale investments	29,050,000	18,604,217	37,154,608
Purchase of available-for-sale investments	(13,810,385)	(32,701,841)	(9,763,722)
Net cash provided by (used in) investing activities	10,595,879	(16,393,544)	25,052,020
Cash flows from financing activities			
Proceeds from long-term debt	7,000,000	—	2,000,000
Payments under long-term debt	(2,000,000)	(1,000,000)	(938,212)
Proceeds from issuance of stock, net of issuance costs	21,929,322	67,897,178	1,559,602
Purchase of treasury stock	—	(43,453)	—
Payments received on notes receivable from sale of common stock	—	134,700	3,750
Net cash provided by financing activities	26,929,322	66,988,425	2,625,140
Net increase (decrease) in cash and cash equivalents	1,811,707	11,612,000	(13,309,023)
Cash and cash equivalents at beginning of period	15,210,493	3,598,493	16,907,516
Cash and cash equivalents at end of period	$ 17,022,200	$ 15,210,493	$ 3,598,493
Supplemental disclosures of cash flow information:			
Interest paid	$ 166,868	$ 207,775	$ 216,763

See accompanying notes.

Notes to Financial Statements

1. Description of Business

Stereotaxis, Inc. (the Company) designs, manufactures, and markets an advanced cardiology instrument control system for the interventional treatment of arrhythmias and coronary artery disease. The Company also markets and sells various disposable interventional devices, including catheters, guidewires and other delivery devices, for use in conjunction with its system. The Company has received regulatory approval for the core components of its system in the U.S., Europe, Canada and various other countries.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all short-term investments purchased with original maturities of three months or less to be cash equivalents. The Company places its cash with high-credit-quality financial institutions and invests primarily in money market accounts. As of December 31, 2006, $713,865 of cash is restricted subject to satisfaction of certain conditions related to a delivered system. No cash was restricted at December 31, 2007.

Investments

In accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Company's investment securities are classified as available-for-sale and are carried at market value, which approximates cost. Realized gains or losses, calculated based on the specific identification method, were not material for the years ended December 31, 2007, 2006 and 2005. Interest and dividends on securities classified as available-for-sale are included in interest income.

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable primarily include amounts due from hospitals and distributors for acquisition of magnetic systems and associated disposable device sales. Credit is granted on a limited basis, with balances due generally within 30 days of billing. The provision for bad debts is based upon management's assessment of historical and expected net collections considering business and economic conditions and other collection indicators.

Financial Instruments

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

Inventory

The Company values its inventory at the lower of cost, as determined using the first-in, first-out (FIFO) method, or market. The Company periodically reviews its physical inventory for obsolete items and provides a reserve upon identification of potential obsolete items.

Property and Equipment

Property and equipment consist primarily of computer, office and research and demonstration equipment held for lease and leasehold improvements and are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives or life of the base lease term, ranging from three to ten years.

Long-Lived Assets

If facts and circumstances suggest that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered, as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value.

Intangible Assets

Intangible assets consist of purchased technology arising out of collaboration with a strategic partner valued at the cost of acquisition on the acquisition date and amortized over its estimated useful life of 15 years. Accumulated amortization at December 31, 2007 and 2006 is $588,889 and $455,555, respectively. Amortization expense in 2007, 2006 and 2005 is $133,333 during each year, as determined under the straight-line method. The estimated future amortization of intangible assets is $133,333 annually through July 2018.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and loss during the reporting period. Actual results could differ from those estimates.

Revenue and Costs of Revenue

For arrangements with multiple deliverables, the Company allocates the total revenue to each deliverable based on the provisions of Staff Accounting Bulletin (SAB) 104 and Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, and recognizes revenue for each separate element as the criteria are met. In the second quarter of 2007, the Company determined that installation met the criteria under SAB 104 and EITF Issue No. 00-21 for recognition as a separate element or unit of accounting. Under this policy, as of December 31, 2007 there were seven Niobe systems for which the Company had recognized systems revenue upon delivery but for which installation revenue had not yet been recognized. Revenue for system sales is recognized for the portion of sales price due upon delivery, provided delivery has occurred, 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. The sales price due upon installation is recognized as revenue when the standard installation process is complete. 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. If uncertainties exist regarding collectability, the Company recognizes revenue when those uncertainties are resolved. 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 multi-element 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. The Company recognizes revenue from disposable device sales or accessories upon shipment and an appropriate reserve for returns is established. The Company recognizes fees earned on the shipment of product to customers as revenue and recognize costs incurred on the shipment of product to customers as cost of revenue.

Costs of systems revenue include direct product costs, installation labor and other costs, estimated warranty costs, and training and product maintenance costs and are recorded at the time of sale. Costs of disposable revenue include direct product costs and are recorded at the time of sale. Cost of revenue from services and license fees are recorded when incurred. During the 2007 year, the Company recorded approximately $1.9 million of charges for inventory impairment related to the first generation Niobe system. The Company also includes in cost of revenue any expected loss related to executed contracts in the period in which the loss becomes known. During the year ended December 31, 2005 the Company incurred $135,560 for costs in excess of contractual revenue, primarily on certain system sales.

Research and Development Costs

Internal research and development costs are expensed in the period incurred. Amounts receivable from strategic partners under research reimbursement agreements are recorded as a contra-research and development expense in the period reimbursable costs are incurred. Advance receipts or other unearned reimbursements are included in accrued liabilities on the accompanying balance sheet until earned.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board Statement No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), using the modified prospective transition method to account for its grants of stock options, stock appreciation rights, restricted shares and its employee stock purchase plan. SFAS 123(R) supersedes the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB Opinion No. 25") and requires recognition of an expense when goods or services are provided. SFAS 123(R) requires 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. Prior to January 1, 2006, the Company accounted for those plans under the provisions of APB Opinion No. 25, and related interpretations in accounting for stock-based employee compensation as permitted by SFAS 123, *Accounting for Stock-Based Compensation.* Prior to the adoption of SFAS 123(R), stock-based compensation for grants of stock options was included as a pro forma disclosure in the Notes to the Consolidated Financial Statements as permitted by SFAS 123. Results for prior periods have not been restated.

Under the modified prospective transition method of SFAS 123(R), the Company recognized stock-based compensation expense related to 1) the remaining unvested portion of all stock option, stock appreciation rights and restricted share awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123; and 2) expense related to all stock option, stock appreciation rights and restricted share awards modified or granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Company utilizes the Black-Scholes valuation model to determine the fair value of share-based payments at the date of grant with the following inputs: 1) expected dividend rate of 0%; 2) expected volatility of 50% based on the Company's historical volatility and a review of the volatilities of comparable companies; 3) risk-free interest rate based on the Treasury yield on the date of grant and; 4) expected term for grants made subsequent to the adoption of SFAS 123(R) determined in accordance with Staff Accounting Bulletin No. 107 using the simplified method ranging from 3.75 to 5.5 years. The resulting compensation expense is recognized over the requisite service period, generally one to four years. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated based on the Company's historical experience and future expectations. Prior to the adoption of SFAS 123(R), the effect of forfeitures on the pro forma expense amounts was recognized as the forfeitures occurred.

Stock options or stock appreciation rights issued to non-employees, including individuals for scientific advisory services, are recorded at their fair value as determined in accordance with SFAS 123 and Emerging Issues Task Force (EITF) No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services,* and recognized over the service period for those options with graded vesting. Deferred compensation for options granted to non-employees is periodically remeasured through the vesting or forfeiture date.

Restricted shares granted to employees are valued at the fair market value at the date of grant. The Company amortizes the amount to expense over the service period on a straight-line basis for those shares with graded vesting. 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. Under APB 25, if the shares granted were subject to variable performance criteria, the compensation expense was periodically remeasured through the vesting or forfeiture date.

Shares purchased by employees under the 2004 Employee Stock Purchase Plan are considered to be compensatory and are accounted for in accordance with SFAS 123(R). Under APB Opinion 25, these shares were not considered to be compensatory and were not included in expense but were included in the pro forma expense calculation.

In accordance with SFAS 123(R), the Company recorded approximately $4.3 million of share based compensation expense during the year ended December 31, 2006. As a result, the Company's net loss for the year ended December 31, 2006 was approximately $2.0 million lower than if it had continued to account for share-based compensation under APB Opinion No. 25. Net loss per share for the year ended December 31, 2006 was $0.06 lower than if the Company had continued to account for share-based compensation under APB Opinion No. 25.

Net Loss per Share

Basic loss per common share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing the loss for the period by the weighted average number of common and common equivalent shares outstanding during the period.

The Company has deducted shares subject to repurchase from the calculation of shares used in computing net loss per share, basic and diluted. The Company has excluded all outstanding convertible preferred stock, options, stock appreciation rights, warrants, shares subject to repurchase and unearned restricted shares from the calculation of diluted loss per common share because all such securities are anti-dilutive for all periods presented. As of December 31, 2007, the Company had 3,324,509 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of $8.72 per share and 357,350 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $8.83 per share.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, a deferred income tax asset or liability is determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. The Company provides a valuation allowance against net deferred income tax assets unless, based upon available evidence, it is more likely than not the deferred income tax assets will be realized.

Product Warranty Provisions

The Company's standard policy is to warrant all NIOBE 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.

The warranty activity for the year ended December 31, 2007 is as follows:

	December 31, 2007
Warranty accrual at December 31, 2006	$ 188,198
Warranty expense incurred	254,858
Payments made	(208,105)
Warranty accrual at December 31, 2007	$ 234,951

During the year ended December 31, 2006, the Company expensed approximately $237,000 related to a warranty obligation for a system installed at a hospital whose President and Chief Executive Officer is a member of our board of directors.

Patent Costs

Costs related to filing and pursuing patent applications are expensed as incurred, as recoverability of such expenditures is uncertain.

Concentrations of Risk

The majority of the company's cash, cash equivalents and investments are deposited with one major financial institution in the United States of America. Deposits in this institution exceed the amount of insurance provided on such deposits.

One customer, Siemens AG, Medical Solutions and its affiliated entities, as our distributor, accounted for $5,611,496, $5,941,884 and $4,392,349, or 14%, 22% and 29%, of total net sales for the years ended December 31, 2007, 2006 and 2005, respectively. At December 31, 2007 and 2006 this customer had balances due to us of $2,265,000 and $1,708,000, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) generally represents all changes in stockholders' equity except those resulting from investments by stockholders, and includes the Company's unrealized income (loss) on marketable securities. Comprehensive income (loss) for the years ended December 31, 2007 and 2006 included unrealized gain (loss) on available-for-sale investments of $(193) and $46,769, respectively. Accumulated other comprehensive income at December 31, 2007 and 2006 was $1,964 and $2,157, respectively.

Reclassifications

Costs of revenue in the prior years financial statements have been reclassified to disclose components related to systems and disposables, service and accessories to conform to current year presentation with no impact to reported net income.

Recently Adopted Accounting Pronouncements

Effective January 1, 2007 the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 (FIN 48)*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain tax positions. The adoption of FIN 48 did not have an impact on the Company's financial position or results of operations.

Pending Accounting Pronouncements

In June 2007, the FASB ratified EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007 and will be adopted by us in the first quarter of fiscal 2008. The adoption of EITF 07-06 is not expected to have a material impact to the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for the Company on January 1, 2008. The adoption of SFAS 159 is not expected to have a material impact to the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 provides a single definition of fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. Statement 157 applies to those previously issued pronouncements that prescribe fair value as the relevant measure of value, except SFAS No. 123R and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning January 1, 2008. The adoption of SFAS 157 is not expected to have a material impact to the Company's financial statements.

3. Investments

The following table summarizes available-for-sale securities included in short-term investments as of the respective dates:

	December 31, 2007				December 31, 2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments:								
Corporate debt	$ —	$ —	$ —	$ —	$ 1,844,463	$ —	$ (475)	$ 1,843,988
U.S. government agency	—	—	—	—	9,274,072	2,559	—	9,276,631
Commercial paper	6,131,899	1,964	—	6,133,863	7,558,765	494	—	7,559,259
Certificates of deposit				—	2,092,674	—	(421)	2,092,253
Auction rate securities	500,315	—	—	500,315	1,001,157	—	—	1,001,157
Total	$ 6,632,214	$ 1,964	$ —	$ 6,634,178	$ 21,771,131	$ 3,053	$ (896)	$ 21,773,288

The Company views its available-for-sale portfolio as available for use in its current operations.

4. Inventory

Inventory consists of the following:

	December 31,	
	2007	2006
Raw Materials	$ 2,394,846	$ 2,501,312
Work in Process	214,996	29,443
Finished Goods	7,949,723	5,966,525
Reserve for obsolescence	(595,105)	(211,455)
	$ 9,964,460	$ 8,285,825

5. Prepaid Expenses and Other Assets

Prepaid and other assets consists of the following:

	December 31,	
	2007	2006
Prepaid expenses	$ 1,519,211	$ 1,424,224
Deferred cost of revenue	1,176,109	347,933
Other assets	1,570,203	1,130,168
	4,265,523	2,902,325
Less: Long-term other assets	(844,321)	(321,552)
Total prepaid expenses and other assets	$ 3,421,202	$ 2,580,773

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

6. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2007	2006
Equipment	$ 9,637,232	$ 5,307,519
Equipment held for lease	303,412	303,412
Leasehold improvements	1,506,576	1,309,715
	11,447,220	6,920,646
Less accumulated depreciation	(4,435,457)	(2,790,351)
	$ 7,011,763	$ 4,130,295

7. Related Party Transactions

In November 2005, the Company entered into a six-month commitment with certain affiliated investors providing for the availability of $20 million in unsecured borrowings. The lenders received five-year warrants to purchase shares of the Company's common stock upon commitment of the funds. The Company recorded the fair value of $938,850 to paid in capital and has amortized the expense over the 6-month term of the commitment. During 2006 and 2005, the Company expensed $674,312 and $264,538, respectively, related to these warrants. The facility expired in May 2006.

In February 2008, the Company received a $20 million commitment for unsecured borrowings from certain affiliated investors as described in Note 18.

8. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2007	2006
Accrued salaries, bonus, and benefits	$ 3,531,582	$ 3,495,023
Accrued research and development	4,456,049	3,471,094
Accrued legal and other professional fees	824,448	323,224
Other	3,101,339	2,735,890
	$ 11,913,418	$ 10,025,231

9. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	2007	2006
Revolving credit agreement, due March 2009	$ 5,000,000	$ 1,000,000
April 2004 term note, due June 2007	—	333,333
November 2005 term note, due November 2008	305,555	638,889
June 2007 term note, due June 2010	1,666,667	—
	6,972,222	1,972,222
Less current maturities	(972,222)	(1,666,666)
	$ 6,000,000	$ 305,556

In March 2007, the Company amended its Revolving Credit Agreement with its primary lending bank. The amended agreement retained substantially all of the same terms and conditions as the agreement in place at December 31, 2006, but increased the maximum borrowing capacity to $25 million, an increase of $15 million, and provided for an additional $2 million in equipment advances. The maturity date of the revolving line of credit was extended to March 2009 and the interest rate was adjusted to the lender's prime rate plus either 0.25% or 0.75%, depending on a defined liquidity measure. The Company is required to maintain a ratio of "quick" assets (cash, cash equivalents, accounts receivable and short term investments) to current liabilities (less deferred revenue) of at least 1.25 to 1.0. In the event the Company's quick asset ratio (as defined in the agreement) falls below 1.75 to 1, the Company would also be required to maintain certain operating performance measures. The $2 million equipment loan was drawn in June 2007.

In December 2007, the Company amended its Revolving Credit Agreement with its primary lending bank to modify the terms of the of arrangement to increase the availability under the existing line and deferred required compliance with both quick ratio measures.

As of December 31, 2007, the Company had $5.0 million outstanding under the working capital line of credit and had an unused line of approximately $20.0 million with current borrowing capacity of approximately $13.9 million, secured by qualifying receivables and inventory balances. As of December 31, 2007, the Company is in compliance with all required covenants. The Revolving Credit Agreement was further amended in March 2008 as described in Note 18 herein.

In April 2004, the Company entered into a term note due in June 2007 with its primary lender for $2,000,000, (April 2004 term note). The Company was required to make equal payments of principal and interest, at 7%, through June 2007. The note was paid in full in June 2007.

In November 2005, the Company entered into a term note due in November 2008 with its primary lender for $1,000,000 (November 2005 term note). The Company is required to make equal payments of principal plus interest at prime plus 1.5% through November 2008.

In June 2007, the Company entered into a term note due in June 2010 with its primary lender for $2,000,000, (June 2007 term note). The Company is required to make equal payments of principal and interest, at prime plus 1%, through June 2010.

The Revolving Credit Agreement, April 2004 term note and November 2005 term note (collectively, the Credit Agreements) are secured by substantially all of the Company's assets. The Company is also required under the Credit Agreements to maintain its primary operating account and the majority of its cash and investment balances in accounts with the primary lender.

In November 2005, the Company entered into a six-month commitment with certain affiliates providing for the availability of up to $20 million of unsecured borrowings. This commitment was available to be drawn against at any time through May 10, 2006, the initial six-month commitment period. The commitment period, as well as the maturity date on any funds drawn under the commitment, was subject to one six-month extension, through November 2006, at the Company's sole election. The lenders received five-year warrants to purchase shares of the Company's common stock upon commitment of the funds. The Company did not draw funds under this agreement nor did it extend the commitment period beyond its May 2006 expiration.

In February 2008, the Company entered into a one year commitment with certain stockholders providing for the availability of $20 million of unsecured borrowings as described in Note 18 herein.

Contractual principal maturities of long-term debt at December 31, 2007 are as follows:

2008	$ 972,222
2009	5,666,667
2010	333,333
	$ 6,972,222

10. Lease Obligations

The Company leases its facilities under operating leases. For the years ended December 31, 2007, 2006, and 2005 rent expense was $1,195,617, $1,182,107, and $942,937 respectively.

In January 2006, the Company moved its primary operations into new facilities. The new facility is subject to a 10 year lease, expiring in 2015. Under the terms of the lease, the Company has options to expand its space and to renew for up to six additional years. The lease contains an escalating rent provision which the Company has straight-lined over the term of the lease.

The future minimum lease payments under noncancelable leases as of December 31, 2007 are as follows:

Year	Operating Lease
2008	$ 1,439,103
2009	1,528,790
2010	1,519,112
2011	1,482,388
2012	1,524,133
Beyond 2012	4,655,886
Total minimum lease payments	$ 12,149,412

11. Stockholders' Equity

Public Offerings of Common Stock

In February 2006, the Company completed an offering of its common stock of 5,500,000 shares of its common stock at $12.00 per share, including the underwriters' exercise of an option to purchase an additional 500,000 shares. In conjunction with these transactions, the Company received approximately $61.7 million in net proceeds after deduction of underwriting discounts and commissions and payment of estimated offering expenses.

In August 2006, the Company filed a universal shelf registration statement for the issuance and sale from time to time to the public of up to $75 million in securities, including debt, preferred stock, common stock and warrants. The shelf registration was declared effective by the SEC in September 2006. In March 2007, the

Company completed an offering of 1,919,000 shares of its common stock at $10.50 per share pursuant to the shelf registration. In conjunction with this transaction, the Company received approximately $20.1 million in net proceeds after deducting offering expenses

Common Stock

The holders of common stock are entitled 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 prior rights of holders of all classes of stock having priority rights as dividends and the conditions of the our Revolving Credit Agreement. No dividends have been declared or paid as of December 31, 2007.

The Company has reserved shares of common stock for the exercise of warrants, the issuance of options granted under the Company's stock option plan and its stock purchase plan as follows:

	December 31,	
	2007	2006
Warrants	357,350	510,626
Stock award plans	4,326,412	2,795,907
Employee Stock Purchase Plan	111,065	173,319
	4,794,827	3,479,852

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 2002, the Board of Directors adopted a stock incentive plan (the 2002 Stock Incentive Plan) and a non-employee directors' stock plan (2002 Director Plan). In 1994, the Board of Directors adopted the 1994 Stock Option Plan. Each of these plans was subsequently approved by the Company's stockholders. At December 31, 2007 and 2006, the Board of Directors has reserved a total of 4,326,412 and 2,795,907, shares respectively, of the Company's common stock to provide for current and future grants under the 2002 Stock Incentive Plan and the 2002 Director Plan and for all current grants under the 1994 Stock Option Plan.

The 2002 Stock Incentive Plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights and restricted shares to employees, directors, and consultants. Options granted under the 2002 Stock Incentive Plan expire no later than ten years from the date of grant. The exercise price of each incentive stock option shall not be less than 100% of the fair value of the stock subject to the option on the date the option is granted. The exercise price of each non-qualified option shall not be less than 85% of the fair value of the stock subject to the option on the date the option is granted. The vesting provisions of individual options may vary, but incentive stock options generally vest 25% on the first anniversary of each grant and 1/48 per month over the next three years. Stock appreciation rights are rights to acquire a calculated number of shares of the Company's common stock upon exercise of the rights. The number of shares to be issued is calculated as the difference between the exercise price of the right and the aggregate market value of the underlying shares on the exercise date divided by the market value as of the exercise date. Stock appreciation rights granted under the 2002 Stock Incentive Plan generally vest 25% on the first anniversary of such grant and 1/48 per month over the next three years and expire no later than five years from the date of grant. The Company generally issues new shares upon the exercise of stock options and stock appreciation rights.

Restricted share grants under the 2002 Stock Incentive Plan are either time-based or performance-based. Time-based restricted shares generally vest 25% on each anniversary of such grant. Performance-based restricted shares vest upon the achievement of performance objectives which are determined by the Company's Board of Directors.

The 2002 Director Plan allows for the grant of non-qualified stock options to the Company's non-employee directors. Options granted under the 2002 Director Plan expire no later than ten years from the date of grant. The exercise price of options under the 2002 Director Plan shall not be less than 100% of the fair value of the stock subject to the option on the date the option is granted. Initial grants of options to new directors generally vest over a two year period. Annual grants to directors generally vest upon the earlier of one year or the next shareholder meeting.

The 1994 Stock Option Plan allows for the grant of incentive stock options and non-qualified stock options to employees, directors, and consultants to the Company. Options granted under the 1994 Stock Option Plan expire no later than ten years from the date of grant and generally vest over a period of two to four years. Options granted may be exercised prior to vesting, in which case the related shares would be subject to repurchase by the Company at original purchase price until vested. The Company no longer grants options under the 1994 Stock Option Plan.

As of December 31, 2007 1,812,237 options and stock appreciation rights were vested and outstanding under all stock award plans.

A summary of the options and stock appreciation rights activity for the year ended December 31, 2007 is as follows:

	Number of Options/SARs	Range of Exercise Price	Weighted Average Exercise Price per Share
Outstanding, December 31, 2006	2,403,507	$ 0.25-$12.35	$ 7.08
Granted	1,260,680	$10.24-$14.84	$ 11.13
Exercised	(219,247)	$ 0.25-$12.03	$ 4.82
Forfeited	(120,431)	$ 0.30-$12.03	$ 8.18
Outstanding, December 31, 2007	3,324,509	$ 0.25-$14.84	$ 8.72

As of December 31, 2007 the weighted average remaining contractual life of the options and stock appreciation rights outstanding was 4.8 years. Of the 3,324,509 options and stock appreciation rights that were outstanding as of December 31, 2007, 1,812,237 were vested and exercisable with a weighted average exercise price of $6.94 per share and a weighted average remaining term of 5.0 years.

A summary of the options and stock appreciation rights outstanding by range of exercise price is as follows:

	Year Ended December 31, 2007				
Range of Exercise Prices	Options/ SARs Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Options/SARs Currently Exercisable	Weighted Average Exercise Price per Share
$0.25 - $5.94	764,695	4.7 years	$ 4.92	763,248	$ 4.92
$6.77 - $9.90	1,058,365	5.0 years	7.83	880,319	7.82
$10.06 - $14.84	1,501,449	4.6 years	11.29	168,670	11.51
	3,324,509	4.8 years	$ 8.72	1,812,237	$ 6.94

The intrinsic value of options and stock appreciation rights is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the 3,002,269 options and stock appreciation rights that were in-the-money at December 31, 2007. The intrinsic value of the options and stock appreciation rights outstanding at December 31, 2007 was approximately $11.9 million based on a closing share price of $12.22 on December 31, 2007. The intrinsic value of fully vested options and stock appreciation rights outstanding at December 31, 2007 was approximately $9.6 million based on a closing price of

$12.22 on December 31, 2007. During the year ended December 31, 2007, the aggregate intrinsic value of options and stock appreciation rights exercised under the Company's stock option plans was approximately $1.5 million. The weighted average grant date fair value of options and stock appreciation rights granted during the year ended December 31, 2007 was $4.83 per share.

During the year ended December 31, 2007 and 2006, the Company realized approximately $1.0 and $1.3 million, respectively, from the exercise of stock options and stock appreciation rights.

The 2002 Stock Incentive Plan allows for the grant of restricted shares to employees. These grants expire no later than five years from the date of grant. Restricted share grants under the 2002 Stock Incentive Plan are either time-based or performance-based. Time-based restricted shares generally vest 25% on each anniversary of such grant. Performance-based restricted shares vest upon the achievement of performance objectives which are determined by the Company's Compensation Committee.

A summary of the restricted share grant activity for the year ended December 31, 2007 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding, December 31, 2006	679,544	$ 9.84
Granted	195,660	$ 12.08
Vested	(50,212)	$ 9.94
Forfeited	(103,577)	$ 8.76
Outstanding, December 31, 2007	721,415	$ 10.60

A summary of the restricted stock outstanding as of December 31, 2007 is as follows:

	Number of Shares
Time based restricted shares	235,341
Performance based restricted shares	486,074
Outstanding, December 31, 2007	721,415

The intrinsic value of restricted shares outstanding at December 31, 2007 was approximately $8.8 million based on a closing share price of $12.22 as of December 31, 2007. During the year ended December 31, 2007, the aggregate intrinsic fair value of restricted shares vested was approximately $635,000 determined at the date of vesting.

At December 31, 2007, 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 $9.8 million, net of estimated forfeitures of approximately $1.1 million. This cost will be amortized over a period of up to four years on a straight-line basis over the underlying estimated service periods and will be adjusted for subsequent changes in estimated forfeitures.

2004 Employee Stock Purchase Plan

Upon the effectiveness of the initial public offering in August 2004, the Company adopted its 2004 Employee Stock Purchase Plan and reserved 277,777 shares of common stock for issuance pursuant to the plan. The Company offered employees the opportunity to participate in the plan beginning January 1, 2005 with an initial purchase date of June 30, 2005. Eligible employees have the opportunity to participate in a new purchase

period every 6 months. Under the terms of the plan, employees can purchase up to $12,500 of the Company's common stock at 85% of the fair market value of the stock at the beginning or the end of the purchase period, subject to certain plan limitations. As of December 31, 2007, 2006, and 2005 166,712, 104,458, and 29,541 shares, respectively, had been purchased under this plan.

Pro Forma Net Loss

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation:

	Year Ended December 31, 2005
Net loss, as reported	$ (43,557,835)
Add total stock-based compensation cost included in net loss	747,412
Deduct total stock-based compensation expense under fair value method	(3,374,460)
Pro forma net loss	$ (46,184,883)
Net loss per share, basic and diluted, as reported	$ (1.60)
Net loss per share, basic and diluted, pro forma	$ (1.69)

For purposes of the above proforma disclosure, the fair value of each option or stock appreciation right is estimated on the date of grant using the Black-Scholes option pricing model using the following assumptions for the year ended 2005: dividend yield of 0%, expected volatility ranging from 50% to 120%, risk free interest rates ranging from 1.09% to 5.28% an initial expected life ranging from five to ten years.

Warrants

Prior to its public offering in 2004, the Company issued warrants to purchase 418,819 shares of common stock at $7.81 per share exercisable through December 2006, warrants to purchase 446,063 shares of common stock at $7.81 exercisable through December 2007, warrants to purchase 298,936 shares of common stock at $10.55 per share exercisable through February 2009 in connection with a corresponding issuance of convertible preferred stock. During 2005, the Company issued warrants to purchase 306,418 shares of common stock at $6.53 in conjunction with a commitment for unsecured borrowing capacity from two affiliated investors. Such warrants are exercisable through November 2010. The fair value of the warrants was credited to additional paid-in capital and was recognized as commitment fees over the term of the agreement. During 2008, the Company issued warrants to certain stockholders in conjunction with a $20 million loan commitment as described in Note 18.

During 2007, 2006, and 2005, warrants for 147,619, 858,810 and 72,507 shares, respectively, were exercised. Certain of these shares were exercised under the cashless exercise provision of the warrant agreements for a net issuance of 93,050, 638,472, and 14,888 shares of common stock during 2007, 2006, and 2005, respectively.

12. Income Taxes

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2007	2006	2005
Deferred:			
Federal	$ 11,396,216	$ 14,321,316	$ 14,654,439
State and local	($ 2,378,549)	2,384,413	2,361,140
Total deferred	9,017,667	16,705,729	17,015,579
Valuation allowance	(9,017,667)	(16,705,729)	(17,015,579)
Net deferred	$ —	$ —	$ —

The provision for income taxes varies from the amount determined by applying the U.S. federal statutory rate to income before income taxes as a result of the following:

	Year Ended December 31,		
	2007	2006	2005
U.S. statutory income tax rate	34.0%	34.0%	34.0%
State and local taxes, net of federal tax benefit	(4.9)%	3.4%	3.6%
Permanent differences between book and tax and other	(10.4)%	(1.5)%	(0.2)%
Research credits	0.0%	0.6%	1.7%
Valuation allowance	(18.7)%	(36.5)%	(39.1)%
Effective income tax rate	0.0%	0.0%	0.0%

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable losses, and projections for future losses over periods which the deferred tax assets are deductible, the Company determined that a 100% valuation allowance of deferred tax assets was appropriate. Accordingly, a 100% valuation allowance has been established. The valuation allowance for deferred tax assets includes approximately $251,000 for which subsequently recognized tax benefits will be applied directly to contributed capital.

The components of the deferred tax asset are as follows:

	December 31,	
	2007	2006
Current accruals	$ 2,028,654	$ 567,126
Depreciation and amortization	1,672,233	1,525,704
Deferred compensation	2,677,348	1,626,847
Net operating loss carryovers	82,150,858	72,276,229
Research and development credit carryovers	—	3,702,394
Deferred tax assets	88,529,093	79,698,300
Valuation allowance	(88,529,093)	(79,698,300)
Net deferred tax assets	$ —	$ —

As of December 31, 2007, the Company has federal net operating loss carryforwards of approximately $229 million. The net operating loss carryforwards will expire at various dates beginning in 2008, approximately $3,512,000 will expire between 2008 and 2011 and approximately $225,001,000 will expire between 2012 and

2027, if not utilized. The federal research and development credits were decreased to $0 as of December 31, 2007 as the Company had determined it is more likely than not that it does not have sufficient documentation to support the recognition of these credits for financial statement purposes.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes (FIN 48)* on January 1, 2007. The Company had no unrecognized tax benefits in the financial statements as of January 1, 2007. A portion of the previously reported gross deferred tax assets as of December 31, 2006, primarily the Research and Development credit are not "more-likely-than-not" assets under FIN 48. As such, the Company determined that it would be appropriate to present deferred tax assets net of this asset and the associated valuation allowance. As a result of the adoption, there were no unrecognized tax benefits in the financial statements as of January 1, 2007.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. As the Company has a federal Net Operating Loss carryforward from the year ended December 31, 1993 forward, all tax years from 1993 forward are subject to examination. As states have varying carryforward periods, and the Company has recently entered into additional states, the states are generally subject to examination for the previous 15 years or less.

The Company recognizes interest accrued, net of tax and penalties, related to unrecognized tax benefits as components of income tax provision as applicable. As of December 31, 2007, the Company did not have any accrued interest and penalties.

13. Net Loss per Share

The following is a reconciliation of the numerator (net loss) and the denominator (number of shares) used in the basic and diluted earnings per share calculations:

	Year Ended December 31,		
	2007	2006	2005
Basic and diluted:			
Net loss	$ (48,121,514)	$ (45,719,770)	$ (43,557,835)
Weighted average common shares outstanding	35,793,973	32,979,403	27,312,041
Less weighted average shares subject to repurchase	—	—	(10,219)
Weighted average shares used in basic and diluted net loss per share	35,793,973	32,979,403	27,301,822
Net loss per share	$ (1.34)	$ (1.39)	$ (1.60)

The following table sets forth the number of common shares that were excluded from the computation of earnings per share because their inclusion would have been anti-dilutive as follows:

	December 31,		
	2007	2006	2005
Shares outstanding			
Restricted shares	675,078	651,288	308,105
Shares issuable upon exercise of:			
Options to purchase common stock	3,324,509	2,403,507	2,456,488
Warrants	357,350	510,626	1,369,436
	4,356,937	3,565,421	4,134,029

14. Employee Benefit Plan

Beginning in 2002, the Company offered employees the opportunity to participate in a 401(k) plan. The Company matches employee contributions dollar for dollar up to 3% of the employee's salary during the employee's period of participation. For the years ended December 31, 2007, 2006 and 2005, the Company expensed $605,063, $492,142 and $450,370, respectively, related to the plan.

15. 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.

The Company has entered into two letters of credit to support certain purchase and other commitments in the amount of approximately $2.7 million.

16. Quarterly Data (Unaudited)

The following tabulations reflect the unaudited quarterly results of operations for the years ended December 31, 2007 and 2006:

	Net Sales	Gross Margin	Net Loss	Basic and Diluted Loss Per Share
2007				
First quarter	$ 9,160,955	$5,910,607	$(10,504,105)	$ (0.31)
Second quarter	7,835,239	3,491,908	(15,005,916)	(0.42)
Third quarter	12,047,754	8,014,171	(10,398,262)	(0.29)
Fourth quarter	10,254,861	6,535,903	(12,213,231)	(0.34)
2006				
First quarter	$ 1,731,793	$ 499,802	$(14,595,306)	$ (0.47)
Second quarter	3,814,020	1,631,595	(13,610,529)	(0.41)
Third quarter	7,640,313	3,964,791	(11,353,573)	(0.34)
Fourth quarter	14,005,580	8,202,769	(6,160,362)	(0.18)

17. Segment Information

The Company considers reporting segments in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company's system and disposable devices are developed and marketed to a broad base of hospitals in the United States and internationally. The Company considers all such sales to be part of a single operating segment.

Geographic revenue is as follows:

	Year Ended December 31,		
	2007	2006	2005
United States	$ 25,930,305	$ 10,069,492	$ 10,998,617
International	13,368,504	17,122,214	4,027,773
Total	$ 39,298,809	$ 27,191,706	$ 15,026,390

All of the Company's long-lived assets are located in the United States.

18. Subsequent Events

In February 2008 the Company entered into a Loan and Warrant Purchase Agreement with two of its shareholders providing for $20 million in loan availability. These funds can be drawn at the Company's election, would be subordinated to any bank debt, would be unsecured, and would be due at the maturity date of February 2009. The commitment may also be used to provide guarantees to the Company's primary lending bank to support advances under the credit agreement with the bank. The financing commitment from the shareholders is subject to a 90 day extension, solely at the Company's option, providing for an extended maturity date of May 2009. In conjunction with this transaction, the Company and its primary lending bank amended the working capital line of credit by increasing the line to $30 million subject to a borrowing base of qualifying accounts receivable and inventory, with up to $10 million available under the line supported by these guarantees. Under the revised facility the Company is required to maintain a minimum "tangible net worth" as defined in the agreement of at least $5 million at the end of any calendar quarter during the term of the agreement, with lesser amounts required at non-quarter month ends. Warrants to purchase approximately 572,000 shares of the Company's common stock at an exercise price of $6.99 were issued to the shareholders in exchange for the financing commitment. The warrants are exercisable immediately upon grant and expire five years from the date of grant.

At December 31, 2007, the Company had invested $500,000 in a taxable auction rate security ("ARS") which we classified as a current asset. The Company considers these securities as available for sale. The ARS held by the Company is a private placement security with a long-term stated maturity for which the interest rate is reset through a Dutch auction every 28 days. The auctions have historically provided a liquid market for these securities as investors historically could readily sell their investments at auction. With the liquidity issues experienced in global credit and capital markets, the Company was unable to sell its ARS at auction on February 22, 2008, as the amount of securities submitted for sale exceeded the amount of purchase orders. The Company's ARS was issued by South Carolina Student Loan Corporation and currently carries a AAA/Aaa rating. It has not experienced any payment defaults and is insured by AMBAC. Nonetheless, if uncertainties in the credit and capital markets continue, these markets deteriorate further or there are any ratings downgrades on this ARS we hold, we may be required to recognize an impairment and/or reclassify these investments from short-term to long-term investment. In addition, these securities may not provide the liquidity to us as we need it, as it could take until the final maturity of the underlying note (June 2034) to realize our investments' recorded value. The Company intends to liquidate these securities at par at the earliest possibility opportunity.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Report on Internal Control Over Financial Reporting

As of December 31, 2007, the Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, 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) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). 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.

Internal control over Financial Reporting: The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15(d)-15(f) promulgated under the Securities Exchange Act. The Company's internal control over financial reporting is designed 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 principals in the

United Sates of America. The Company's management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making the assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on our assessment, our management has concluded that our internal control over financial reporting is effective as of December 31, 2007.

A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which can be found below.

Based on the evaluation of internal control over financial reporting, the Chief Executive Officer and Chief Financial Officer have concluded that there have been no changes in the Company's internal controls over financial reporting during the period that is covered by this report that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Stereotaxis, Inc.

We have audited Stereotaxis, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Stereotaxis, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stereotaxis, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Stereotaxis, Inc. as of December 31, 2007 and 2006, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 of Stereotaxis, Inc. and our report dated March 13, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young, LLP

St. Louis, Missouri
March 13, 2008

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Report on Form 10-K since we intend to file our definitive Proxy Statement for our next Annual Meeting of Stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Proxy Statement"), no later than April 30, 2008, and certain information to be included in the Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item concerning our executive officers and directors is incorporated by reference to the information set forth in the section entitled "Directors and Executive Officers" in our Proxy Statement. Information regarding Section 16 reporting compliance is incorporated by reference to the information set forth in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement.

Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees effective August 1, 2004 as amended from time to time. Stockholders may request a free copy of our Code of Business Conduct and Ethics from our Chief Financial Officer as follows:

Stereotaxis, Inc.
Attention: James M. Stolze
4320 Forest Park Avenue, Suite 100
St. Louis, MO 63108
314-678-6100

To the extent required by law or the rules of the NASDAQ Stock Market, any amendments to, or waivers from, any provision of the Code of Business Conduct and Ethics will be promptly disclosed publicly. To the extent permitted by such requirements, we intend to make such public disclosure by posting the relevant material on our website (*www.stereotaxis.com*) in accordance with SEC rules.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item regarding executive compensation is incorporated by reference to the information set forth in the sections titled "Executive Compensation" in our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth in the section titled "Security Ownership of Certain Beneficial Owners and Management" in our Proxy Statement.

The following table summarizes certain information regarding our securities that may be issued pursuant to our equity compensation plans as of December 31, 2007.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))(1) (c)
Equity compensation plans approved by security holders	3,324,509	$ 8.72	1,112,968
Equity compensation plans not approved by security holders	—	—	—
Total	3,324,509	$ 8.72	1,112,968

(1) Includes 111,065 shares reserved for issuance under the 2004 Employee Stock Purchase Plan. Number of shares of common stock is subject to adjustment for changes in capitalization for stock splits, stock dividends and similar events.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth in the section titled "Certain Relationships and Related Person Transactions and Director Independence" in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item regarding principal accounting fees and services is incorporated by reference to the information set forth in the section titled "Principal Accounting Fees and Services" in our Proxy Statement.

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K

(1) Financial Statements—See Index to the Financial Statements at Item 8 of this Report on Form 10-K.

(2) The following financial statement schedule of Stereotaxis, Inc. is filed as part of this Report and should be read in conjunction with the financial statements of Stereotaxis, Inc.:

— Schedule II: Valuation and Qualifying Accounts.

All other schedules have been omitted because they are not applicable, not required under the instructions, or the information requested is set forth in the consolidated financial statements or related notes thereto.

(3) Exhibits

See Exhibit Index appearing on page herein.

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: March 13, 2008

By: /s/ BEVIL J. HOGG
Bevil J. Hogg,
Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Bevil J. Hogg and James M. Stolze, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K and any other documents and instruments incidental thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents and/or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FRED A. MIDDLETON **Fred A. Middleton**	Chairman of the Board of Directors	March 13, 2008
/s/ BEVIL J. HOGG **Bevil J. Hogg**	Chief Executive Officer (principal executive officer)	March 13, 2008
/s/ JAMES M. STOLZE **James M. Stolze**	Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 13, 2008
/s/ ABHI ACHARYA **Abhi Acharya**	Director	March 13, 2008
/s/ CHRISTOPHER ALAFI **Christopher Alafi**	Director	March 13, 2008
/s/ DAVID W. BENFER **David W. Benfer**	Director	March 13, 2008
/s/ RALPH G. DACEY, JR. **Ralph G. Dacey, Jr.**	Director	March 13, 2008

Signature	Title	Date
/s/ GREGORY R. JOHNSON **Gregory R. Johnson**	Director	March 13, 2008
/s/ WILLIAM M. KELLEY **William M. Kelley**	Director	March 13, 2008
/s/ ABHIJEET J. LELE **Abhijeet J. Lele**	Director	March 13, 2008
/s/ WILLIAM C. MILLS III **William C. Mills III**	Director	March 13, 2008
/s/ ROBERT J. MESSEY **Robert J. Messey**	Director	March 13, 2008
/s/ ERIC N. PRYSTOWSKY **Eric N. Prystowsky**	Director	March 13, 2008

S CHEDULE II

VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006, AND 2005

	Balance at Beginning of Year	Additions Charged to Cost and Expenses	Deductions	Balance at the End of Year
Allowance for doubtful accounts and returns:				
Year ended December 31, 2007	$ 90,716	$ 280,648	$ (182,324)	$ 189,040
Year ended December 31, 2006	29,576	248,280	(187,140)	90,716
Year ended December 31, 2005	146,223	132,221	(248,868)	29,576
Allowance for inventories valuation:				
Year ended December 31, 2007	$ 211,455	$ 2,170,606	$ (1,786,956)	$ 595,105
Year ended December 31, 2006	43,438	627,604	(459,587)	211,455
Year ended December 31, 2005	112,755	207,126	(276,443)	43,438

EXHIBIT INDEX

Number	Description
3.1	Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2004.
3.2	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.
4.1	Form of Specimen Stock Certificate, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 4.1.
4.2	Fourth Amended and Restated Investor Rights Agreement, dated December 17, 2002 by and among Registrant and certain stockholders, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 4.3.
4.3	Joinder Agreement to Series D-2 Preferred Stock Purchase Agreement, Fourth Amended and Restated Investor Rights Agreement and Amendment to Second Amended and Restated Stockholders' Agreement dated January 21, 2003 by and among Registrant and certain stockholders, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 4.4.
4.4	Joinder and Amendment to Second Amended and Restated Stockholders' Agreement and Fourth Amended and Restated Investor Rights Agreement, dated May 27, 2003 by and among Registrant and certain stockholders incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 4.5.
4.5	Second Joinder and Amendment to Second Amended and Restated Stockholders' Agreement and Fourth Amended and Restated Investor Rights Agreement, dated December 22, 2003 by and among Registrant and certain stockholders, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 4.6.
4.6	Third Joinder and Amendment to Second Amended and Restated Stockholders' Agreement and Fourth Amended and Restated Investor Rights Agreement, dated January 28, 2004 by and among Registrant and certain stockholders, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 4.7.
4.7	Form of Warrant Agreement issued to Series E-2 investors, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 4.11.
4.8	Form of Warrant issued pursuant to that certain Note and Warrant Purchase Agreement, dated as of November 10, 2005, between the Registrant and the investors named therein, incorporated by reference to Exhibit 4.2 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2005.
4.9	Form of Warrant issued pursuant to that certain Note and Warrant Purchase Agreement effective February 7, 2008 between the Registrant and certain investors named therein (included in Exhibit 10.31).
10.1#	1994 Stock Option Plan, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.1.
10.2a#	2002 Stock Incentive Plan, as amended May 24, 2007, incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2007.

Number	Description
10.2b#	Form of Incentive Stock Option Agreement under the 2002 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2004.
10.2c#	Form of Non-Qualified Stock Option Agreement under the 2002 Stock Incentive Plan, incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2004.
10.2d#	Form of Restricted Stock Agreement under the 2002 Stock Incentive Plan, incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2005.
10.2e#	Form of Performance Share Agreement under the 2002 Stock Incentive Plan, incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2005.
10.2f#	Form of Stock Appreciation Right Agreement under the 2002 Stock Incentive Plan, incorporated by reference to Exhibit 10.4 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2005.
10.3a#	2004 Employee Stock Purchase Plan, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.3.
10.3b#	Form of Subscription Agreement for the 2004 Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.6 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2004.
10.4a#	2002 Non-Employee Directors' Stock Plan, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.4.
10.4b#	Amendment to 2002 Non-Employee Directors' Stock Plan, incorporated by reference to Exhibit 10.5 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2005.
10.4c#	Form of Non-Qualified Stock Option Agreement under the 2002 Non-Employee Directors' Stock Plan, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2005.
10.5#	Restated Employment Agreement dated February 22, 2006 between Bevil J. Hogg and the Registrant (filed herewith).
10.6#	Employment Agreement dated April 4, 2001 between Douglas M. Bruce and the Registrant, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.6.
10.7#	Employment Agreement dated February 16, 2001 between Melissa Walker and the Registrant, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.7.
10.8#	Employment Agreement dated April 17, 2002 between Michael P. Kaminski and the Registrant, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.8.
10.9#	Letter Agreement and Employment Agreement dated May 26, 2004 between James M. Stolze and the Registrant, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.17.

Number	Description
10.10#	Summary of annual cash compensation of executive officers (filed herewith).
10.11#	Summary of Non-Employee Directors' Compensation, incorporated by reference to Exhibit 10.15 of the Registrant's Form 10-K (File No. 000-50884) for the fiscal year ended December 31, 2004.
10.12	Collaboration Agreement dated June 8, 2001 between the Registrant and Siemens AG, Medical Solutions, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.9.
10.13†	Extended Collaboration Agreement dated May 27, 2003 between the Registrant and Siemens AG, Medical Solutions, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.10.
10.13a	Amendment to Collaboration Agreement dated May 5, 2006 between the Company and Siemens Aktiengesellschaft, Medical Solutions, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2006.
10.14†	Development and Supply Agreement dated May 7, 2002 between the Registrant and Biosense Webster, Inc., incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.11.
10.15†	Amendment to Development and Supply Agreement dated November 3, 2003 between the Registrant and Biosense Webster, Inc., incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.12.
10.16†	Alliance Expansion Agreement, dated as of May 4, 2007, between Biosense Webster, Inc. and the Registrant, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2007.
10.18	Form of Indemnification Agreement between the Registrant and its directors and executive officers, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.14.
10.19†	Letter Agreement, effective October 6, 2003, between the Registrant and Philips Medizin Systeme G.m.b.H., incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.16.
10.20†	Japanese Market Development Agreement dated May 18, 2004 between the Registrant, Siemens Aktiengesellschaft and Siemens Asahi Medical Technologies Ltd., incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.32.
10.21†	Office Lease dated November 15, 2004 between the Registrant and Cortex West Development I, LLC, incorporated by reference to Exhibit 10.39 of the Registrant's Form 10-K (File No. 000-50884) for the fiscal year ended December 31, 2004.
10.22	Amendment to Office Lease dated November 30, 2007 between the Registrant and Cortex West Development I, LLC (filed herewith).

Number	Description
10.26	Loan and Security Agreement dated April 30, 2004 between the Registrant and Silicon Valley Bank, incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.28.
10.27	Second Loan Modification Agreement, dated as of November 8, 2005, between Silicon Valley Bank and the Registrant, incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2005.
10.28†	Third Loan Modification Agreement, dated March 12, 2007, between Silicon Valley Bank and the Registrant, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended March 31, 2007.
10.29†	Fourth Loan Modification Agreement, dated December 26, 2007, between Silicon Valley Bank and the Registrant (filed herewith).
10.30†	Fifth Loan Modification Agreement, dated February 29, 2008 between Silicon Valley Bank and the Registrant (filed herewith).
10.31	Note and Warrant Purchase Agreement, effective February 7, 2008, between the Registrant and the investors named therein (filed herewith).]
21.1	List of Subsidiaries of the Registrant (filed herewith).
23.1	Consent of Ernst & Young LLP
31.1	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
31.2	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).
32.1	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
32.2	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer)

# Indicates management contract or compensatory plan

† Confidential treatment granted as to certain portions, which portions are omitted and filed separately with the Securities and Exchange Commission.

Exhibit 10.5

Restated At-Will Employment Agreement

It is understood and agreed that the continued employment by Stereotaxis, Inc., a Delaware corporation (the "Company" or "Stereotaxis"), of the employee named below ("Employee") shall be subject to the terms and conditions of this At-Will Employment Agreement ("Agreement'). As of the date hereof, this Agreement shall supersede and replace that certain prior At-Will Employment Agreement between the Company and Employee dated June 23, 1997 ("Prior Agreement"); provided, however, that the terms and conditions of this Agreement shall be no less favorable to Employee than under the Prior Agreement.

The parties acknowledge and agree that this Agreement is intended to constitute a restatement of the Prior Agreement, including all amendments thereto previously approved by the Company's Board of Directors and/or duly authorized Compensation Committee, including certain amendments approved by resolution that had been previously disclosed but not formalized by written amendment to the Prior Agreement.

1. POSITION. Employee shall serve as the Company's President, Chief Executive Officer and as a member of the Company's Board of Directors. Employee shall carry out such duties normally and customarily associated with a President and Chief Executive Officer, and as are otherwise assigned to him by the Company's Board of Directors. Employee shall report to the Company's Board of Directors. Employee's employment with the Company shall continue as of the effective date of under this Agreement.

2. BASE SALARY. Employee shall be paid a beginning base salary equivalent to Three Hundred Sixty-Five Thousand Dollars ($365,000) per year in semi-monthly installments which shall be subject to applicable withholdings and deductions.

3. SIGNING BONUS. *[Intentionally omitted as no longer applicable.]*

4. INCENTIVE BONUS. At the end of each year of employment, Employee will be eligible for a cash incentive bonus of up to 25% of Employee's 12-month base salary. Payment of such incentive bonus will be determined by Stereotaxis' Board of Directors (or duly authorized Compensation Committee of the Board) based upon the Company's achievement of goals and objectives for the year, and shall be shall be made as soon as practicable thereafter, but in no event later than the fifteenth (15^{th}) day of the third (3^{rd}) month following the year.

5. SEVERANCE BENEFITS.

5.1 For purposes of this letter agreement, "Cause" shall mean gross misconduct or gross negligence such as gross breach of fiduciary duty, dishonest, theft or commission of a crime involving moral turpitude.

5.2 If Employee's employment is terminated by Stereotaxis without Cause, Employee will be paid a salary continuance equal to Employee's base salary for the lesser of (i) the period from the date of Employee's termination of employment until Employee commences employment with a

new employer or (ii) twenty-four (24) months. In addition, the number of stock options, stock appreciation rights or other equity awards subject to vesting that would have vested over the 12-month period following such termination shall be automatically vested as of the date of such termination. Upon an acquisition or merger of the Company where the Company is not the surviving entity and a change of control occurs, 50% of Employee's unvested options will automatically vest. Additionally, if Employee's employment is terminated following an acquisition or merger of the Company where the Company is not the surviving entity and a change of a control occurs, and if Employee is not offered a comparable position in the surviving entity, Employee will be paid salary continuance equal to his base salary for twenty-four (24) months and 100% of Employee's unvested options will vest at the end of the salary continuance period.

6. CERTAIN MATTERS RELATING TO EQUITY COMPENSATION

6.1 Sale of Common Stock.

6.1.1 Pursuant to the Prior Agreement, the Company sold, and Employee purchased, Six Hundred Thousand (600,000) shares (the "Initial Shares") of the Company's common stock, par value $0.001 per share ("Common Stock"), at a price of $0.07 per share (such price and number of shares prior to giving effect to the Company's 1-for3.6 reverse stock split in July 2004), following the execution and delivery of the Prior Agreement.

6.1.2 Pursuant to the Prior Agreement, the Company granted Employee an option to purchase, and Employee exercised such option and purchased, an additional Two Hundred Thirty Thousand (230,000) shares (the "Additional Shares", the Initial Shares and Additional Shares together, the "Shares") of Common Stock at $0.15 per share (such price and number of shares prior to giving effect to the Company's 1-for3.6 reverse stock split in July 2004), the then fair market value price per share as determined by the Company's Board of Directors in connection with the achievement of certain goals as described in the Prior Agreement, including the closing of the Company's Series C Preferred Stock financing in 1998.

6.1.3 The Initial Shares and the Additional Shares were all subject to various repurchase rights ("Repurchase Rights") as detailed in the Prior Agreement. The parties acknowledge and agree that the Repurchase Rights for all of the Initial Shares and the Additional Shares have lapsed in accordance with their terms under the Prior Agreement.

6.2 Transferability of the Shares. Transfer or sale of the Shares is subject to restrictions on transfer imposed by any applicable state and federal securities laws. Any transferee shall hold such Shares subject to all provisions hereof and shall acknowledge the same by signing a copy of this Agreement.

6.3 Representations. Employee has reviewed with his own tax advisers the federal, state, local and foreign tax consequences of this investment and the transaction contemplated by this Agreement. Employee is relying solely on such advisors and not on any statements or representations of the Company or any of its agents (including with respect to any 83(b) election(s) that may have been made in connection with the original purchase of the Shares). Employee understands that he and not the Company shall be responsible for his own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

6.4 Options and Other Equity Awards. The Company acknowledges that Employee has previously been granted certain equity awards (including options to purchase shares of Common Stock and grants of restricted stock), pursuant to the terms set forth more particularly in the Company's various equity incentive plans in effect from time to time during the term of the Prior Agreement, and ratifies and confirms such awards. Future equity awards (including, without limitation, stock options or shares of restricted stock) may be granted conditioned on and subject to the approval of the Board of Directors, or any duly authorized committee thereof.

7. COMPANY BENEFITS. While employed by the Company, Employee shall be entitled to receive the benefit of employment made available by the Company from time to time for which he is eligible. Employee will be entitled to medical insurance for himself, his spouse and minor children and four weeks paid vacation per year. Employee additionally will be provided office space and secretarial services for the normal conduct of the Company's business.

8. ATTENTION TO DUTIES; CONFLICT OF INTEREST.

8.1 While employed by the Company, Employee shall devote Employee's full business time, energy and abilities exclusively to the business and interests of Stereotaxis, and shall perform all duties and services in a faithful and diligent manner and to the best of Employee's abilities. Employee shall not, without the Company's prior written consent, render to others, services of any kind for compensation, or engage in any other business activity that would materially interfere with the performance of Employee's duties under this Agreement. Employee will not serve on any other board, be employed by another company or perform any consulting services without the express approval of the Company's Board of Directors.

8.2 Employee represents that Employee has no other outstanding commitments inconsistent with any of the terms of this Agreement or the services to be rendered to Stereotaxis. While employed by the Company, Employee shall not invest in any company or business which competes in any manner with the Company, except those companies whose securities are publicly traded, listed on national securities exchange, foreign stock exchange, pink sheets or small cap. Securities exchanges.

8.3 Without limiting the effectiveness of such provisions prior to the date hereof, the Company acknowledges that certain references permitting Employee to serve on the boards of directors of other companies during the term of the Prior Agreement have been deleted as no longer applicable because Employee no longer serves on such boards.

9 . CONFIDENTIALITY AND NONCOMPETE AGREEMENT. Employee agrees to be bound by the terms of the Confidentiality and Noncompete Agreement which are attached as Exhibit A and incorporated by this reference ("Proprietary and Noncompete Agreement").

10. AT-WILL EMPLOYER. The Company is an "at-will" employer. This means that the Company may terminate Employee's employment at any time, with or without cause and without notice, and that Employee may terminate Employee's employment at any time, with or without cause and without notice. Stereotaxis makes no promise that Employee's employment will continue for a set period of time, nor is there any promise that it will be terminated only under particular circumstances. No raise or bonus, if any, shall alter Employee's status as an "at-will" Employee or create any implied contract of employment. Discussion of possible or potential benefits in future

years is not an express or implied promise of continued employment. No manager, supervisor or officer of Stereotaxis has the authority to change Employee's status as an "at-will" Employee. The "at-will" nature of the employment relationship with Employee can only be altered by a written resolution signed by all the directors of Stereotaxis. No position within Stereotaxis is considered permanent.

11. BINDING ARBITRATION.

11.1 Any dispute, claim or controversy relating to discrimination of any nature, including, without limitation, age, sex, race, religion or national origin between employee and the Company ("Discrimination Claims") shall be settled exclusively by arbitration pursuant to the provisions of this Section 10.

11.2 Employee and Stereotaxis each waive their federal and state constitutional rights to have Discrimination Claims determined by a jury. Instead of a jury trial, an arbitrator shall be chosen by Stereotaxis and Employee. Arbitration is preferred because, among other reasons, it is quicker, less expensive and less formal than litigation in court.

11.3 The arbitrator shall not have the authority to alter, amend, modify, add to or eliminate any condition or provision of this Agreement, including, but not limited to, the "at-will" nature of the employment relationship. The arbitration shall be held in St. Louis County, Missouri and shall be conducted in accordance with the rules of the Center for Dispute Resolution. The award of the arbitrator shall be final and binding on the parties. Judgment upon the arbitrator's award may be entered in any court, state or federal, having jurisdiction over the parties. If a written request for arbitration is not made within six months of the date of the alleged wrong or violation, all remedies regarding such alleged wrong or violation shall be waived.

11.4 Should any court determine that any provision(s) of this Agreement to arbitrate is void or invalid, the parties specifically intend every other provision of this Agreement to arbitrate to remain enforceable and intact. The parties explicitly and definitely prefer arbitration to recourse to the courts, for the reasons described above, and have prescribed arbitration as their sole and exclusive method of dispute resolution.

12. NO INCONSISTENT OBLIGATIONS. Employee represents that Employee is not aware of any obligations, legal or otherwise, inconsistent with the terms of this Agreement or Employee's undertakings under this Agreement.

13. MISCELLANEOUS.

13.1 No promises or changes in Employee's status as an employee of the Company or any of the terms and conditions of this Agreement can be made unless they are duly authorized by the Company's Board of Directors (including any duly authorized committee thereof), with Employee abstaining from the vote. The Company acknowledges, ratifies and confirms that all previous amendments to the Prior Agreement, as reflected herein, were valid and binding at the time authorized and continue to be valid and binding set forth in this Agreement. This Agreement and the terms and conditions described in it cannot be changed orally or by any conduct of either Employee or Stereotaxis or any course of dealings between Employee, or another person and Stereotaxis.

13.2 Unless otherwise agreed upon in writing by the parties, Employee, after termination of any employment, shall not seek nor accept employment with the Company in the future and the Company is entitled to reject without cause any application for employment with the Company made by Employee, and not hire Employee. Employee agrees that Employee shall have no cause of action against the Company arising out of any such rejection.

13.3 This Agreement and performance under it, and any suits or special proceedings brought under it, shall be construed in accordance with the laws of the United States of America and the State of Missouri and any arbitration, mediation or other proceeding arising hereunder shall be filed and adjudicated in St. Louis County, Missouri.

13.4 If any term or condition, or any part of a term or condition, of this Agreement shall prove to be invalid, void or illegal, it shall in no way affect, impair or invalidate any of the other terms or conditions of this Agreement, which shall remain in full force and effect.

13.5 The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver of or any acquiescence in or to such provision.

13.6 The parties to this Agreement represent and acknowledge that in executing this Agreement they do not rely and have not relied upon any representation or statement made by the other party or the other party's agents, attorneys or representatives regarding the subject matter, basis, or effect of this Agreement or otherwise, other than those specifically stated in this written Agreement. This Agreement shall be interpreted in accordance with the plain meaning of its terms and not strictly for or against any party. This Agreement shall be construed as if each party was its author and each party hereby adopts the language of this Agreement as if it were his, her or its own. The captions to this Agreement and its sections, subsections, tables and exhibits are inserted only for convenience and shall not be construed as part of this Agreement or as a limitation on or broadening of the scope of this Agreement or any section, subsection, table or exhibit.

Employee and Stereotaxis have executed this Agreement and agree to enter into and be bound by the provisions hereof as of February 22, 2006.

THIS CONTRACT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

STEREOTAXIS, INC.

By: /s/ Fred A. Middleton
Fred A. Middleton
Chairman of the Board
on behalf of the Board of Directors

EMPLOYEE

Sign: /s/ Bevil J. Hogg
Bevil J. Hogg

Exhibit 10.10

Annual Cash Compensation of Executive Officers

Base Salaries and 2007 Bonus Payments. The executive officers of Stereotaxis, Inc. (the "Company") have their base salaries determined yearly by the Compensation Committee (the "Committee") of the Board of Directors. It is anticipated that such determinations will occur annually. The executive officers are all "at will" employees, and each have written employment agreements which are filed, as required, as exhibits to reports filed by the Company under the Securities Exchange Act of 1934. On February 6, 2008, the Compensation Committee determined that the 2008 annual salaries for executive officers of the Company would not increase from the 2007 amounts and that no payments would be made under the Company's 2007 bonus program (the "2007 Program") to the executive officers of the Company as set forth below. The 2007 Program was designed to reward the accomplishments of these officers on behalf of the Company in 2007 pursuant to and consistent with the objective of the Company's bonus plan, as determined by the Committee. The bonus plan performance measures included operating and financial goals, including revenue, expense, regulatory accomplishments, product development, and strategic initiatives. The 2008 salaries and 2007 bonuses are summarized in the following table:

	2008 Salary	2007 Annual Bonus
Douglas Bruce Senior Vice President, Research & Development	$ 295,000	$ —
Bevil Hogg Chief Executive Officer	$ 400,000	$ —
Michael Kaminski President & Chief Operating Officer	$ 345,000	$ —
James Stolze Vice President & Chief Financial Officer	$ 310,000	$ —
Melissa Walker Senior Vice President, Regulatory, Quality & Compliance	$ 235,000	$ —

Messrs. Hogg and Kaminski each received $12,500 during 2007 in respect of 1st quarter 2007 operating performance relative to plan.

The Company intends to provide additional information regarding other compensation awarded to the named executive officers in respect of and during the 2007 fiscal year in the proxy statement for its 2008 annual meeting of shareholders, which is expected to be filed with the Securities and Exchange Commission in April 2008.

Exhibit 10.22

FIRST AMENDMENT TO OFFICE LEASE

THIS FIRST AMENDMENT TO OFFICE LEASE ("First Amendment") is made and entered into this 30th day of November, 2007, by and between STEREOTAXIS, INC., a Delaware corporation ("Tenant"), and CORTEX WEST DEVELOPMENT I, LLC, a Missouri limited liability company ("Landlord").

RECITALS

A. Landlord and Tenant entered into that certain Office Lease, dated November 15, 2004 (the "Original Lease"), as supplemented by that certain Memorandum of Occupancy, dated March 31, 2006 (the "Memorandum of Occupancy") (the Original Lease and the Memorandum of Occupancy are referred to herein collectively as the "Lease"), for certain Office Space and approximately 11,738 rentable square feet of Assembly Space on the first and second floors of the Building, located at 4320 Forest Park Blvd. in St. Louis, Missouri, as more particularly described in the Lease.

B. With the passage of time and the occurrence of certain events, Landlord and Tenant wish to amend the Lease on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing Recitals and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree, as follows:

1. Incorporation; Defined Terms. The foregoing Recitals are incorporated herein by reference as if set forth in full. Terms defined in the Lease shall have the same respective meanings ascribed to them in the Lease when used herein, unless otherwise expressly defined herein.

2. Acknowledgment of Occupancy and Expansions. The parties acknowledge that as of October 19, 2007, Tenant has taken occupancy of all of the rentable square feet of the first floor portion of the Premises and all but 1,659 rentable square feet of the second floor portion of the Premises. Such occupancy includes an additional 1,274 rentable square feet of Office Space taken as of February 1, 2007, and an additional 2,990 rentable square feet of Office Space taken as of March 26, 2007, with the Annual Base Rent payable and all other amounts under the Lease payable and adjusted as of such dates with respect to such Office Space. Such occupancy also includes an additional 1,729 rentable square feet of Office Space resulting from a re-measurement of the first and second floor portions of the Premises using the BOMA Standards to correct the original computation of such rentable square feet as set forth in Section 4 of the Memorandum of Occupancy (i.e., the 34,092 rentable square feet of Office Space identified in Section 4 of the Memorandum of Occupancy is increased to 35,821 square feet of Office Space). The Annual Base Rent and other charges based on such increase of 1,729 rentable square feet of Office Space shall commence to be payable on January 1, 2008. Landlord and Tenant

contemplate that Tenant will take occupancy of the remaining 1,659 rentable square feet of the second floor portion of the Premises referenced above in this Section on or before December 31, 2007. The Annual Base Rent and other charges based on such 1,659 rentable square feet of Office Space shall commence to be payable on January 1, 2008.

3. Lease of All of First and Second Floor Portions of the Premises. Effective January 1, 2008, the Premises shall include all of the first floor and all of the second floor of the west wing of the Building, containing a total of 53,482 rentable square feet (47,752 useable square feet), of which 11,738 rentable square feet (10,480 useable square feet) are Assembly Space and 41,744 rentable square feet (37,272 useable square feet) are Office Space. Accordingly, the parties agree that, effective January 1, 2008, all references in the Lease to rentable square feet and/or useable square feet with regard to the first and second floor portions of the Premises shall be deemed amended to be consistent with the number of rentable square feet and useable square feet set forth above in this Section, notwithstanding any provision in the Original Lease or the Memorandum of Occupancy to the contrary. Except as expressly provided otherwise in Sections 4 and 5 of this First Amendment, commencing on January 1, 2008, the Annual Base Rent and the Monthly Base Rent for the Office Space and the Assembly Space (subject to the footnote in Section 1.11 of the Lease) shall be adjusted as follows:

Lease Year	Annual Base Rent - Rental Rate for Office Space	Annual Base Rent for Office Space	Annual Base Rent - Rental Rate for Assembly Space	Annual Base Rent for Assembly Space
3 through 4	$19.00/rsf	$793,136.00	$14.00/rsf	$164,332.00
5 through 6	$20.00/rsf	$834,880.00	$14.00/rsf	$164,332.00
7 through 8	$21.00/rsf	$876,624.00	$14.00/rsf	$164,332.00
9 through 10	$22.00/rsf	$918,368.00	$14.00/rsf	$164,332.00

Lease Year	Monthly Base Rent for Office Space	Monthly Base Rent for Assembly Space
3 through 4	$66,094.67	$13,694.33
5 through 6	$69,573.33	$13,694.33
7 through 8	$73,052.00	$13,694.33
9 through 10	$76,530.67	$13,694.33

Tenant agrees that, pursuant to the last sentence of Section 3.7 of the Lease, Tenant is not entitled to any further leasehold improvement allowance for the first floor and second floor portions of the Premises.

4. Remainder Space. Landlord and Tenant agree that as of January 1, 2008, the Premises will include all but 6,026 rentable square feet (5,380 useable square feet) of the aggregate 16,000 rentable square feet of the First Expansion Space and Second Expansion Space identified in Section 3.5 and Section 3.6, respectively, of the Original Lease. Such 6,026 rentable square feet are located on the third floor of the west wing of the Building and are referred to herein as the "Remainder Space." Tenant shall commence paying Annual Base Rent for the Remainder Space on the earlier to occur of (i) January 1, 2011, or (ii) the date on which Tenant first takes occupancy of the Remainder Space, at the rental rate for Annual Base Rent for Office Space specified in Section 3 of this Amendment. The Remainder Space shall be located somewhere within the space on the third floor of the Building identified as the Stereotaxis Expansion Area on Exhibit A-3 hereto, containing a total of 28,794 rentable square feet (25,709 useable square feet). For purposes of clarification, Landlord and Tenant hereby acknowledge that the leasehold improvement allowance referenced in Section 3.7 of the Original Lease remains in effect with respect to the Remainder Space.

5. Lease of Third Floor Portion of Premises. Commencing January 1, 2008 (i.e., the first day of Lease Year 3 under the Lease), Landlord shall lease to Tenant and Tenant shall lease from Landlord, as Office Space, the following portions of the third floor of the Building (collectively, the "Third Floor Premises"), containing 22,768 rentable square feet (20,329 useable square feet) in the aggregate:

(a) 15,680 contiguous rentable square feet (14,000 useable square feet) (the "Third Floor Premises One") within the space of the third floor of the Building identified as the Stereotaxis Expansion Area on Exhibit A-3 hereto, with an Annual Base Rent for Lease Year 3 of $344,960.00 and a Monthly Base Rent for Lease Year 3 of $28,746.67 (i.e., a rental rate of $22.00 per rentable square foot). On the first day of Lease Year 4 (i.e., January 1, 2009) and on the first day of each Lease Year thereafter during the Term, the Annual Base Rent for the Third Floor Premises One shall be increased by the percentage increase in the CPI (as hereinafter defined) between the CPI published for the applicable Earlier Month (as hereinafter defined) and the applicable Later Month (as hereinafter defined), calculated by dividing the difference between the CPI for such Later Month and the CPI for such Earlier Month by the CPI for such Earlier Month and converting the quotient (rounded up to the nearest 1/100) to a percent. As used herein, "CPI" shall mean the consumer price index now known as "United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index, U.S. City Average for all Urban Consumers, Seasonally Adjusted, All Items (1982-84=100)." As used herein, "Later Month" shall mean the calendar month 2 months prior to the first day of the Lease Year on which the increase shall occur. As used herein, "Earlier Month" shall mean the same month as the Later Month of the calendar year that is one year prior to the year of the applicable Later Month. By way of example only, since Lease Year 3 commences on January 1, 2008, and Lease Year 4 commences on January 1, 2009, the Later Month for the purpose of calculating the Annual Base Rent for Lease Year 4 will be November of 2008 and the Earlier Month will be November of 2007, and if the CPI published for the Earlier Month is 156 and the CPI published

for the Later Month is 165, then the CPI increase would be 6 percent (165—156 = 9; 9 ÷ 156 = .057692; rounded up to .06, the equivalent of 6 percent). Annual Base Rent for the Third Floor Premises One shall be abated for the period from January 1, 2008 to May 31, 2008 and shall commence to be payable on June 1, 2008. Landlord shall provide Tenant with a leasehold improvement allowance for the Third Floor Premises One in an amount equal to $25.00 per rentable square foot (i.e., $392,000.00). If publication of the CPI is discontinued or its method of computation is changed, then Landlord and Tenant shall select another index measuring the purchasing power of the U.S. Dollar published by a governmental or academic entity to replace the CPI.

(b) 7,088 contiguous rentable square feet (6,329 useable square feet) ("the "Third Floor Premises Two") within the space on the third floor of the Building identified as the Stereotaxis Expansion Area on Exhibit A-3 hereto, with an Annual Base Rent for Lease Year 3 of $138,216.00 and a Monthly Base Rent for Lease Year 3 of $11,518.00 (i.e., a rental rate of $19.50 per rentable square foot). Annual Base Rent for the Third Floor Premises Two shall be abated for the period from January 1, 2008 to May 31, 2008 and shall commence to be payable on June 1, 2008. It is anticipated that the Third Floor Premises Two may not be improved or occupied by Tenant for the two (2) year period from January 1, 2008 through December 31, 2009. Commencing on the earlier to occur of January 1, 2010, as to the entirety of the Third Floor Premises Two, or the date on which any portion of the Third Floor Premises Two is improved and occupied by Tenant, as to such portion of the Third Floor Premises Two, the rental rate for the Annual Base Rent for such improved and occupied portion of the Third Floor Premises Two shall become the same as the rental rate for the Annual Base Rent then in effect for the Third Floor Premises One. Landlord shall provide Tenant with a leasehold improvement allowance for the Third Floor Premises Two in an amount equal to $25.00 per rentable square foot in that portion of the Third Floor Premises Two then being improved.

The expiration date of the lease of the Third Floor Premises shall be co-terminus with the expiration date of the lease of the first and second floor portions of the Premises. Landlord and Tenant hereby acknowledge and confirm that the initial Term expires on December 31, 2015, as stated in the Memorandum of Occupancy. Effective January 1, 2008, the Premises shall include all of the first floor and all of the second floor of the west wing of the Building, the Remainder Space and the Third Floor Premises, containing a total of 82,276 rentable square feet (73,461 useable square feet), of which 11,738 rentable square feet (10,480 useable square feet) are Assembly Space and 70,538 rentable square feet (62,981 useable square feet) are Office Space. Accordingly, the parties agree that, effective January 1, 2008, all references in the Lease to rentable square feet and/or useable square feet of the entire Premises shall be deemed amended to be consistent with the number of rentable square feet and useable square feet set forth above in this paragraph.

6. Amendment of Section 3.8 of the Lease. Section 3.8 of the Lease is hereby amended to read in its entirety, as follows:

"3.8 Termination Option—Unavailability of Space. Tenant shall have the option, exercisable by written notice given at least one (1) year in advance and delivered at any time between January 1, 2015, and January 1, 2016, to terminate this Lease,

effective at the end of the twelfth (12th) month after the month in which such notice is given, such termination option to be exercisable in the event, and only in the event, that Landlord is unable to deliver to Tenant, within one hundred eighty (180) days after advance written notice by Tenant, such additional space in the Building (over and above the Premises as described in Section 5 of the First Amendment (i.e., 82,276 rentable square feet) as Tenant deems, in its sole discretion, is necessary for the expansion of its operations. Should Tenant elect to terminate the Lease pursuant to this Section 3.8, then on the termination date, and as a condition to such termination, Tenant shall pay to Landlord a termination fee in an amount equal to one hundred twenty percent (120%) of all of Landlord's unamortized expense of improving the Premises for Tenant, including all leasehold improvement allowances actually paid or funded by Landlord during the initial Term of the Lease, plus any exercised extensions thereof, computed on a straight-line basis from the date of such expense over the number of Lease Years (or remainder of Lease Years from the date of such expense) in the initial Term, plus any exercised extensions thereof. Landlord acknowledges that the leasehold improvements made to the Premises at the commencement of the initial Term will be fully amortized on December 31, 2015."

7. Exercise of First Renewal Option. Pursuant to Section 3.3 of the Lease, Tenant hereby exercises its first option to renew the term of the Lease as to the Premises (inclusive of the Remainder Space and the Third Floor Premises), totaling 82,276 rentable square feet, for a period of three (3) years, to the end that the expiration date of the Term of the Lease is December 31, 2018. Notwithstanding the provisions of Section 3.3 of the Lease, the Annual Base Rent payable during the first Lease Year of the renewal term (i.e., calendar year 2016 or the 11 th Lease Year of the Term, as extended hereby) for all of the Office Space in the Premises (including the Office Space in the Third Floor Premises) shall be an amount per annum equal to $27.87 per rentable square foot contained therein, and for all of the Assembly Space in the Premises shall be an amount per annum equal to $18.81 per square foot contained therein (subject to a maximum Assembly Space area of 11,738 rentable square feet). Commencing on the first day of Lease Year 12 (i.e., January 1, 2017) and on the first day of each Lease Year thereafter during the Term, as extended hereby, the Annual Base Rent for all of the Office Space and all of the Assembly Space shall be increased by the percentage increase in the CPI (as defined in Section 5 of this First Amendment) between the CPI published for the applicable Earlier Month (as defined in Section 5 of this First Amendment) and the applicable Later Month (as defined in Section 5 of this First Amendment), calculated by dividing the difference between the CPI for such Later Month and the CPI for such Earlier Month by the CPI for such Earlier Month and converting the quotient (rounded up to the nearest $^1/_{100}$) to a percent.

8. Right of First Offer. If Tenant has taken occupancy and has built out all of the Remainder Space and the Third Floor Premises, and if no uncured event of default by Tenant has occurred under the Lease, and if Landlord is prepared to enter into negotiations with a third party for the lease of certain specific space in the Building containing 5,000 rentable square feet or more, then Landlord shall be obligated to offer, in writing, such space for lease to Tenant by notice to Tenant on terms and conditions, which, taken as a whole, are no less favorable to Landlord than the terms and conditions upon which Landlord is prepared to lease such space to such third party ("Landlord's Offer"). Tenant shall have seven (7) calendar days following the

date of receipt by Tenant of Landlord's Offer in which to respond, in writing, to Landlord's Offer (a failure by Tenant to respond to Landlord's Offer, in writing, within such time period being deemed a rejection of Landlord's Offer by Tenant). If Tenant accepts Landlord's Offer, then Landlord and Tenant shall enter into an amendment to the Lease containing the terms and provisions of Landlord's Offer. If Tenant rejects or is deemed to have rejected Landlord's Offer, then Tenant's right of first offer shall lapse and become void, and Landlord shall thereafter be free to offer to lease and to lease such space to a third party, without any obligation to offer such space to Tenant; provided, however, that if such space remains unleased on the first anniversary of the date on which Landlord receives or is deemed to have received Tenant's rejection of Landlord's Offer, then, once again, Landlord shall be obligated to offer such space to Tenant as hereinabove set forth. The foregoing right of Tenant is a right of first offer, and not a right of first refusal, and shall be applicable only to space in the Building as it exists as of the date of this First Amendment and not to space in any future addition to or expansion of the Building.

9. Leasehold Improvements in Third Floor Premises. Tenant, at its cost, shall be responsible for making all leasehold improvements to the Third Floor Premises. Prior to commencing any improvements to the Third Floor Premises, Tenant shall cause to be prepared the plans and specifications ("Preliminary Plans") for the proposed improvements to the Third Floor Premises (including, without limitation, installations outside of the Third Floor Premises required to provide service to the Third Floor Premises and the connections between the same) ("Tenant's Improvements"). Tenant shall deliver the Preliminary Plans to Landlord for Landlord's review and approval (such approval not to be unreasonably withheld, conditioned or delayed). Within ten (10) days following receipt of the Preliminary Plans, Landlord shall deliver to Tenant Landlord's written comments on the Preliminary Plans. The Preliminary Plans shall be revised by Tenant to incorporate Landlord's comments within ten (10) days after delivery of such comments to Tenant; provided, however, if Tenant disagrees with any of Landlord's comments, Landlord and Tenant shall cooperate in good faith to resolve such disagreement. The revised Preliminary Plans shall again be submitted to Landlord, and Landlord and Tenant shall continue the review and approval process as hereinabove provided; provided, however, the response time by each party shall be shortened to five (5) days until the Preliminary Plans have finally been approved by Landlord, whereupon the Preliminary Plans shall be the "Approved Plans." The Approved Plans shall not be changed without the prior written approval of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. All of Tenant's Improvements shall be made in accordance with the Approved Plans. Tenant's Improvements shall remain the property of Tenant during the Term of this Lease and, if not removed at the end of the Term of this Lease, shall become the property of Landlord; provided, however, that at the expiration or sooner termination of the Term of this Lease, Tenant shall (unless such requirement is waived by Landlord in writing) remove all of Tenant's furniture, fixtures and equipment, including, without limitation, all non-standard items located in the Building penthouse serving the Premises, and all specialty devices and equipment, but excluding Landlord approved partitions, walls, doors, lighting, ceilings, plumbing and flooring. In constructing Tenant's Improvements, Tenant shall use only labor forces compatible with the labor forces of Landlord and its contractors then present in the Building. Upon completion of construction of Tenant's Improvements for each of the Third Floor Premises One and the Third Floor Premises Two, as the case may be, and upon delivery to Landlord of full and final waivers of lien from all contractors, subcontractors and material and labor suppliers for such Tenant's

Improvements, Landlord shall deliver to Tenant the leasehold improvement allowances applicable to the Third Floor Premises One and/or the Third Floor Premises Two, as the case may be; provided, however, if Tenant spends less than the total of the leasehold improvement allowances for Tenant's improvements applicable to the Third Floor Premises One and/or the Third Floor Premises Two, as the case may be, then Landlord shall be obligated to pay to Tenant only such amount of such leasehold improvement allowances as Tenant actually shall have expended for such Tenant's Improvements.

10. Termination Fee. The termination fee described in Section 3.9 of the Lease is hereby amended to be an amount equal to fifty percent (50%) of the Annual Base Rent payable by Tenant through December 31, 2018; provided, however, if Tenant exercises the second renewal option pursuant to Section 3.3 of the original Lease, such termination fee shall be an amount equal to fifty percent (50%) of the Annual Base Rent payable by Tenant through the end of such second renewal term.

11. Increase in Security Deposit. Within ten (10) days after the full execution and delivery of this First Amendment, Tenant shall deposit with Landlord Twenty-Five Thousand and $^{00}/_{100}$ Dollars ($25,000.00), which amount shall be added to the Security Deposit of Fifty Thousand and $^{00}/_{100}$ Dollars ($50,000.00) currently deposited with and held by Landlord. Upon the deposit of such amount with Landlord, the Security Deposit under Section 1.14 of the original Lease shall be Seventy-Five Thousand and $^{00}/_{100}$ Dollars ($75,000.00).

12. Amendment of Exhibits. Exhibits A-1, A-2 and A-3 attached to the original Lease are hereby deleted and replaced with Exhibits A-1, A-2 and A-3 attached hereto and made a part hereof.

13. Effect. As amended hereby, the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment to Office Lease as of the day and year first above set forth.

[COUNTERPART SIGNATURE PAGES FOLLOW]

LANDLORD:

CORTEX WEST DEVELOPMENT I, LLC,
a Missouri limited liability company

By: Center of Research Technology and Entrepreneurial Expertise, Sole Member

By: /s/ John Dubinsky
President

TENANT:

STEREOTAXIS, INC.,
a Delaware corporation

By: /s/ James. M Stolze
Vice President and Chief Financial Officer

EXHIBIT A-1

Floor Plan of First Floor

EXHIBIT A-2

Floor Plan of Second Floor

EXHIBIT A-3

Floor Plan of Third Floor

EXPLANATORY NOTE: "*" INDICATES THE PORTION OF THIS EXHIBIT THAT HAS BEEN OMITTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.

FOURTH LOAN MODIFICATION AGREEMENT

This Fourth Loan Modification Agreement (this "Loan Modification Agreement") is entered into as of December 26, 2007, by and between **SILICON VALLEY BANK**, a California-chartered bank, with a loan production office located at 230 W. Monroe, Suite 720, Chicago, Illinois 60606 ("Bank") and **STEREOTAXIS, INC.**, a Delaware corporation with its chief executive office located at 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108 ("Borrower").

1. DESCRIPTION OF EXISTING INDEBTEDNESS AND OBLIGATIONS. Among other indebtedness and obligations which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to a loan arrangement dated as of April 30, 2004, evidenced by, among other documents, a certain Loan and Security Agreement dated as of April 30, 2004, between Borrower and Bank, as amended by a First Loan Modification Agreement dated as of November 3, 2004, between Borrower and Bank, as amended by a Second Loan Modification Agreement dated as of November 8, 2005, between Borrower and Bank, and as amended by a Third Loan Modification Agreement dated as of March 12, 2007, between Borrower and Bank (as amended, the "Loan Agreement"). Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Loan Agreement.

2. DESCRIPTION OF COLLATERAL. Repayment of the Obligations is secured by the Collateral as described in the Loan Agreement (together with any other collateral security granted to Bank, the "Security Documents").

Hereinafter, the Security Documents, together with all other documents evidencing or securing the Obligations shall be referred to as the "Existing Loan Documents".

3. DESCRIPTION OF CHANGE IN TERMS.

A. Modifications to Loan Agreement.

1. The Loan Agreement shall be amended by deleting the following provision appearing as Section 2.1.1(a):

"(a) Availability. Bank shall make Advances not exceeding (i) the lesser of (A) the Revolving Line or (B) the Borrowing Base minus (ii) the amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit), minus (iii) the FX Reserve, and minus (iv) the aggregate outstanding Advances hereunder (including any Cash Management Services). Amounts borrowed under this Section may be repaid and reborrowed during the term of this Agreement."

and inserting in lieu thereof:

"(a) Availability. Subject to the terms and conditions of this Agreement, 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."

2. The Loan Agreement shall be amended by deleting the following provision appearing as Section 2.1.2(a):

"(a) Bank shall issue or have issued Letters of Credit for Borrower's account not exceeding (i) the lesser of the Revolving Line or the Borrowing Base minus (ii) the outstanding principal balance of any Advances (including any Cash Management Services), minus (iii) the amount of all Letters of Credit (including drawn but unreimbursed Letters of Credit), plus an amount equal to any Letter of Credit Reserves. The face amount of outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve) may not exceed Three Million Five Hundred Thousand Dollars ($3,500,000.00). Each Letter of Credit shall have an expiry date no later than 180 days after the Revolving Maturity Date provided Borrower's Letter of Credit reimbursement obligation shall be secured by cash on terms acceptable to Bank on and after (i) the Maturity Date of the Revolving Line if the Maturity Date of the Revolving Line is not extended by Bank, or (ii) the occurrence of an Event of Default hereunder. All Letters of Credit shall be, in form and substance, acceptable to Bank in its sole discretion and shall be subject to the terms and conditions of Bank's form of standard Application and Letter of Credit Agreement. Borrower agrees to execute any further documentation in connection with the Letters of Credit as Bank may reasonably request."

and inserting in lieu thereof:

"(a) Bank shall issue or have issued Letters of Credit for Borrower's account not exceeding the Availability Amount. The face amount of outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve) may not exceed Eight Million Dollars ($8,000,000.00). Each Letter of Credit shall have an expiry date no later than 180 days after the Revolving Maturity Date provided Borrower's Letter of Credit reimbursement obligation shall be secured by cash on terms acceptable to Bank on and after (i) the Maturity Date of the Revolving Line if the Maturity Date of the Revolving Line is not extended by Bank, or (ii) the occurrence of an Event of Default hereunder. All Letters of Credit shall be, in form and substance, acceptable to Bank in its sole discretion and shall be subject to the terms and conditions of Bank's form of standard Application and Letter of Credit Agreement. Borrower agrees to execute any further documentation in connection with the Letters of Credit as Bank may reasonably request."

3. The Loan Agreement shall be amended by deleting the following appearing as Section 2.1.3 thereof:

"**2.1.3 Foreign Exchange Sublimit**. If there is availability under the Revolving Line and the Borrowing Base, then Borrower may enter in foreign exchange forward contracts with the Bank under which Borrower commits to purchase from or sell to Bank a set amount of foreign currency more than one business day after the contract date (the "FX Forward Contract"). Bank shall subtract 10% of each outstanding FX Forward Contract from the foreign exchange sublimit, which sublimit is a maximum of Eight Million Dollars ($8,000,000.00) (the "FX Reserve"). The total FX Forward Contracts at any one time may not exceed 10 times the amount of the FX Reserve. Bank may terminate the FX Forward Contracts if an Event of Default occurs."

and inserting in lieu thereof:

"**2.1.3 Foreign Exchange Sublimit**. As part of the Revolving Line, Borrower may enter into foreign exchange contracts with Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency (each, a "**FX**

Forward Contract") on a specified date (the "**Settlement Date**"). FX Forward Contracts shall have a Settlement Date of at least one (1) FX Business Day after the contract date and shall be subject to a reserve of ten percent (10%) of each outstanding FX Forward Contract in a maximum aggregate amount equal to $800,000.00 (the "**FX Reserve**"), inclusive of Credit Extension relating to Sections 2.1.2 and 2.1.4. The aggregate amount of FX Forward Contracts at any one time may not exceed ten (10) times the amount of the FX Reserve and the aggregate amount of FX Forward Contracts may not exceed Eight Million Dollars ($8,000,000.00), inclusive of Credit Extensions relating to Sections 2.1.2 and 2.1.4. The amount otherwise available for Credit Extensions under the Revolving Line shall be reduced by an amount equal to ten percent (10%) of each outstanding FX Forward Contract. Any amounts needed to fully reimburse Bank will be treated as Advances under the Revolving Line and will accrue interest at the interest rate applicable to Advances."

4. The Loan Agreement shall be amended by deleting the following provision appearing as Section 2.2 thereof:

"**2.2 Overadvances**. If Borrower's Obligations under Section 2.1.1, 2.1.2, 2.1.3., and 2.1.4 exceed the lesser of either (i) the Revolving Line or (ii) the Borrowing Base, Borrower must immediately pay in cash to Bank the excess.

and inserting in lieu thereof the following:

"**2.2 Overadvances**. If, at any time, the Credit Extensions under Sections 2.1.1, 2.1.2, 2.1.3 and 2.1.4 exceed the lesser of either (i) the Revolving Line or (ii) the aggregate of (A) the Borrowing Base, plus (B) the Permitted Overadvances, Borrower shall immediately pay to Bank in cash such excess."

5. The Loan Agreement shall be amended by deleting the following appearing as Section 6.7 entitled "Financial Covenants" in its entirety:

"**6.7 Financial Covenants**. Borrower shall maintain at all times, to be tested as of the last day of each month, unless otherwise noted:

(a) **Adjusted Quick Ratio**. To be tested as of the last day of each month, beginning with the month ending January 31, 2007, an Adjusted Quick Ratio of at least 1.25 to 1.0.

(b) **Net Loss/Net Income**. To be tested for any such period with respect to which Borrower is unable to provide Bank with satisfactory evidence that Borrower's Adjusted Quick Ratio is equal to or greater than 1.75 to 1.0), Borrower's (1) Net Losses shall not exceed: (A) $* for *, (B) $* for*, (C) $* for *, (D) $* for *, (E) $*for *, (F) $*for * (G) $* for *, and (2) Net Income shall be at least $* for *, and as of the last day * thereafter."

and inserting in lieu thereof the following:

"**6.7 Financial Covenants**. Borrower shall maintain at all times, to be tested as of the last day of each month, unless otherwise noted:

(a) **Adjusted Quick Ratio**. To be tested as of the last day of each month: (i) beginning with the month ending January 31, 2007, and as of the last day of each month thereafter, through and including November 30, 2007, and (ii) beginning with the month ending January 31, 2008, and as of the last day of each month thereafter, an Adjusted Quick Ratio of at least 1.25 to 1.0.

(b) **Net Loss/Net Income**. To be tested for any such period with respect to which Borrower is unable to provide Bank with satisfactory evidence that Borrower's Adjusted Quick Ratio is equal to or greater than 1.75 to 1.0), Borrower's (1) Net Losses shall not exceed: (A) $* for *, (B) $* for *, (C) $* for *, (D) $* for * (E) $* for * (F) $* for *, and (2) Net Income shall be at least $* for * and as of the last day of * thereafter."

6. The Loan Agreement shall be amended by deleting the following definitions appearing in Section 13.1 thereof:

""**Revolving Line**" is an Advance or Advances of up to Twenty-Five Million Dollars ($25,000,000.00)."

and inserting in lieu thereof the following:

""**Revolving Line**" is an Advance or Advances in an aggregate amount of up to Twenty- Five Million Dollars ($25,000,000.00) (including Permitted Overadvances) outstanding at any time."

7. The Loan Agreement shall be amended by inserting the following definitions to appear alphabetically in Section 13.1 thereof:

""**Availability Amount**" is:

(a) prior to January 31, 2008, (i) the lesser of (A) the Revolving Line or (B) the aggregate of (1) the Borrower Base, plus (2) the Permitted Overadvance, minus (ii) the amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit) plus an amount equal to the Letter of Credit Reserves, minus (iii) the FX Reserve, and minus (iv) the outstanding principal balance of any Advances (including any amounts used for Cash Management Services).

(b) on and after February 1, 2008, the lesser of (i) the Revolving Line or (ii) the Borrowing Base minus (b) the amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit) plus an amount equal to the Letter of Credit Reserves, minus (c) the FX Reserve, and minus (d) the outstanding principal balance of any Advances (including any amounts used for Cash Management Services).

"**Permitted Overadvances**" is a Advance or Advances under the Revolving Line from the Fourth Loan Modification Date until January 31, 2008, in amount not to exceed Seven Million Five Hundred Thousand Dollars ($7,500,000.00) outstanding at any time.

"**Fourth Loan Modification Date**" is December 26, 2007."

"**Settlement Date**" is defined in Section 2.1.3."

8. The Borrowing Base Certificate appearing as Exhibit C to the Loan Agreement is hereby replaced with the Borrowing Base Certificate attached as Exhibit A hereto.

4. FEES. Borrower shall pay to Bank a modification fee equal to Three Thousand Five Hundred Dollars ($3,500.00), which fee shall be due on the date hereof and shall be deemed fully earned as of the date hereof. The Borrower shall also reimburse Bank for all legal fees and expenses incurred in connection with this amendment to the Existing Loan Documents.

5. RATIFICATION OF NEGATIVE PLEDGE AGREEMENT. Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and conditions of a certain Negative Pledge Agreement dated as of April 30, 2004, between Borrower and Bank, and acknowledges, confirms and agrees that said Negative Pledge Agreement, shall remain in full force and effect.

6. RATIFICATION OF PERFECTION CERTIFICATE. Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in a certain Perfection Certificate dated as of April 30, 2004, between Borrower and Bank, and acknowledges, confirms and agrees the disclosures and information Borrower provided to Bank in the Perfection Certificate has not changed, as of the date hereof.

7. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

8. RATIFICATION OF LOAN DOCUMENTS. Borrower hereby ratifies, confirms, and reaffirms all terms and conditions of all security or other collateral granted to the Bank, and confirms that the indebtedness secured thereby includes, without limitation, the Obligations.

9. NO DEFENSES OF BORROWER. Borrower hereby acknowledges and agrees that Borrower has no offsets, defenses, claims, or counterclaims against Bank with respect to the Obligations, or otherwise, and that if Borrower now has, or ever did have, any offsets, defenses, claims, or counterclaims against Bank, whether known or unknown, at law or in equity, all of them are hereby expressly WAIVED and Borrower hereby RELEASES Bank from any liability thereunder.

10. CONTINUING VALIDITY. Borrower understands and agrees that in modifying the existing Obligations, Bank is relying upon Borrower’s representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank’s agreement to modifications to the existing Obligations pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Obligations. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Obligations. It is the intention of Bank and Borrower to retain as liable parties all makers of Existing Loan Documents, unless the party is expressly released by Bank in writing. No maker will be released by virtue of this Loan Modification Agreement.

11. COUNTERSIGNATURE. This Loan Modification Agreement shall become effective only when it shall have been executed by Borrower and Bank

[The remainder of this page is intentionally left blank]

This Loan Modification Agreement is executed as of the date first written above.

BORROWER:	**BANK:**
STEREOTAXIS, INC.	**SILICON VALLEY BANK**
By: _____	By: _____
Name:	Name:
Title:	Title:

EXHIBIT A

BORROWING BASE CERTIFICATE

Borrower: Stereotaxis, Inc.
Lender: Silicon Valley Bank
Commitment Amount: $25,000,000.00

ACCOUNTS RECEIVABLE		
1.	Accounts Receivable Book Value as of _____	$_____
2.	Additions (please explain on reverse)	$_____
3.	TOTAL ACCOUNTS RECEIVABLE	$_____
ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)		
4.	Amounts over 120 days due	$_____
5.	Siemens accounts over 180 days due and are 60 day past due	
6.	Balance of 50% over 120 day accounts (except Siemens accounts over 180 days due and are 60 day past due)	$_____
7.	Credit balances over 90 days	$_____
8.	Concentration Limits (in excess of $2,000,000.00 for individual account debtors, except Siemens in excess of $3,000,000.00)	$_____
9.	Foreign Accounts	
10.	Governmental Accounts	$_____
11.	Contra Accounts	$_____
12.	Promotion or Demo Accounts	$_____
13.	Intercompany/Employee Accounts	$_____
14.	Other (please explain on reverse)	$_____
15.	TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS	$_____
16.	Eligible Accounts (#3 minus #15)	$_____
17.	LOAN VALUE OF ACCOUNTS (80% of #16)	$_____
ELIGIBLE FOREIGN ACCOUNTS		
18.	Eligible Foreign Accounts	$_____
19.	LOAN VALUE OF ELIGIBLE FOREIGN ACCOUNTS (80% of #18, which shall be reduced to 40% of #18, if AQR <1.75: 1.0)	$_____
INVENTORY		
20.	Inventory Value as of _____	$_____
21.	LOAN VALUE OF INVENTORY (lesser of 40% of #20 or 50% of #17 plus #19)	$_____
BALANCES		
22.	Maximum Loan Amount	$_____
23.	Total Funds Available (Lesser of #22 or (#17 plus #19 and #21)	$_____
24.	Present balance owing on Line of Credit	$_____
25.	Outstanding under Sublimits (L/C, FX Contract, Cash Mgt.)	$_____
26.	Permitted Overadances	$_____
27.	RESERVE POSITION (#23 minus #24 and #25, plus #26)	$_____

The undersigned represents and warrants that this is true, complete and correct, and that the information in this Borrowing Base Certificate complies with the representations and warranties in the Loan and Security Agreement between the undersigned and Silicon Valley Bank.

COMMENTS:

By: _____

Authorized Signer

BANK USE ONLY

Received by: _____

AUTHORIZED SIGNER

Date: _____

Verified: _____

AUTHORIZED SIGNER

Date: _____

Compliance Status: Yes No

EXPLANATORY NOTE: "*" INDICATES THE PORTION OF THIS EXHIBIT THAT HAS BEEN OMITTED AND SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.

FIFTH LOAN MODIFICATION AGREEMENT

This Fifth Loan Modification Agreement (this "Loan Modification Agreement") is entered into as of February 29, 2008, by and between **SILICON VALLEY BANK**, a California-chartered bank, with a loan production office located at 230 W. Monroe, Suite 720, Chicago, Illinois 60606 ("Bank") and **STEREOTAXIS, INC.**, a Delaware corporation with its chief executive office located at 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108 ("Borrower").

1. DESCRIPTION OF EXISTING INDEBTEDNESS AND OBLIGATIONS. Among other indebtedness and obligations which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to a loan arrangement dated as of April 30, 2004, evidenced by, among other documents, a certain Loan and Security Agreement dated as of April 30, 2004, between Borrower and Bank, as amended by a First Loan Modification Agreement dated as of November 3, 2004, between Borrower and Bank, as amended by a Second Loan Modification Agreement dated as of November 8, 2005, between Borrower and Bank, as amended by a Third Loan Modification Agreement dated as of March 12, 2007, between Borrower and Bank, and as further amended by a Fourth Loan Modification Agreement dated as of December 26, 2007, between Borrower and Bank (as amended, the "Loan Agreement"). Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Loan Agreement.

2. DESCRIPTION OF COLLATERAL. Repayment of the Obligations is secured by the Collateral as described in the Loan Agreement (together with any other collateral security granted to Bank, the "Security Documents").

Hereinafter, the Security Documents, together with all other documents evidencing or securing the Obligations shall be referred to as the "Existing Loan Documents".

3. DESCRIPTION OF CHANGE IN TERMS.

A. Modifications to Loan Agreement.

1. The Loan Agreement shall be amended by deleting the following subsection (c) appearing in Section 2.1.1 thereof:

"(c) Interest Rate. The principal amounts outstanding under the Revolving Line shall accrue interest at a floating per annum rate equal to the aggregate of the Prime Rate, and three-quarters of one percent (.75%); provided, however, if Borrower maintains an Adjusted Quick Ratio equal to or greater than 1.75 to 1.0 at all times during any calendar month, then commencing on the first calendar day following such calendar month, the interest rate shall be reduced to a floating per annum rate equal to the aggregate of the Prime Rate and one-quarter of one percent (.25%) for such calendar month and for each calendar month thereafter in which Borrower's Adjusted Quick Ratio is equal to or greater than 1.75 to 1.0 at all times."

and inserting in lieu thereof the following:

"(c) Interest Rate. The principal amounts outstanding under the Revolving Line shall accrue interest at a floating per annum rate equal to the aggregate of the Prime Rate, and three-quarters of one percent (.75%); provided, however, if Borrower maintains an Adjusted Quick Ratio equal to or greater than 1.75 to 1.0 at all times during any calendar month, then commencing on the first calendar day following such calendar month, the interest rate shall be reduced to a floating per annum rate equal to the aggregate of the Prime Rate and one-quarter of one percent (.25%) for such calendar month and for each calendar month thereafter in which Borrower's Adjusted Quick Ratio is equal to or greater than 1.75 to 1.0 at all times. Notwithstanding the foregoing, commencing on the 2008 Closing Date the principal amounts outstanding under the Revolving Line shall accrue interest at a floating per annum rate equal to the greater of: (i) the aggregate of the Prime Rate and one percent (1.0%), and (ii) seven percent (7.0%)."

2. The Loan Agreement shall be amended by inserting the following new provision to appear as Section 2.1.4.5:

"**2.1.4.5 Guaranteed Line.**"

(a) Availability. Subject to the terms of this Agreement, Bank shall make Guaranteed Advances not exceeding the Guaranteed Line. Each Guaranteed Advance must be in an amount equal to at least One Million Dollars ($1,000,000). The Borrower may not make any principal repayments under the Guaranteed Line without the prior written consent of the Bank. Amounts repaid pursuant to the foregoing may be reborrowed prior to the Guaranteed Line Maturity Date. In the event that any principal payments are made toward the Guaranteed Line without the prior written consent of the Bank, the Bank may re-advance such amounts hereunder as if such repayment had not been made.

(b) Borrowing Procedure. Subject to the prior satisfaction of all other applicable conditions to the making of the Guaranteed Advance, set forth in this Agreement, including without limitation, Section 3.2(c), to obtain a Guaranteed Advance, Borrower shall notify Bank (which notice shall be irrevocable) by electronic mail, facsimile, or telephone by 3:00 pm Eastern time twenty-one (21) Business Days before the day on which the Guaranteed Advance is to be made. Together with any such electronic or facsimile notification, Borrower shall deliver to Bank: (i) by electronic mail or facsimile a completed Payment/Advance Form executed by a Responsible Officer or his or her designee, (ii) each of the Guaranteed Line Closing Deliverables, and (iii) the Guaranteed Line Fee. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Bank shall credit the Guaranteed Advances to the Borrower's deposit account.

(c) Interest Rate. Subjection to Section 2.3(a), the principal amounts outstanding under the Guaranteed Line shall accrue interest at a floating per annum rate equal to the greater of: (i) the Prime Rate, and (ii) six percent (6.0%).

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

3. The Loan Agreement shall be amended by deleting the following provision appearing as Section 2.2 thereof:

"**2.2 Overadvances**. If, at any time, the Credit Extensions under Sections 2.1.1, 2.1.2, 2.1.3 and 2.1.4 exceed the lesser of either (i) the Revolving Line or (ii) the aggregate of (A) the Borrowing Base, plus (B) the Permitted Overadvances, Borrower shall immediately pay to Bank in cash such excess."

and inserting in lieu thereof the following:

"**2.2 Overadvances**. If, at any time, the Credit Extensions under Sections 2.1.1, 2.1.2, 2.1.3, and 2.1.4 exceed the lesser of either (i) the Revolving Line or (ii) the Borrowing Base, Borrower shall immediately pay to Bank in cash such excess (or cash secure any Contingent Obligations pursuant to Section 2.1.2, 2.1.3, and 2.1.4.). In addition, the total Credit Extensions outstanding at any time shall not exceed Thirty Million Dollars ($30,000,000)."

4. The Loan Agreement shall be amended by inserting the following text to appear at the end of Section 2.3(b) thereof:

" In addition, Bank shall be entitled to charge Borrower a "float" charge in an amount equal to one (1) Business Days interest, at the interest rate applicable to the Credit Extensions, on all payments received by Bank. The float charge for each month shall be payable on the last day of the month. Bank shall not, however, be required to credit Borrower's account for the amount of any item of payment which is unsatisfactory to Bank in its good faith business judgment, and Bank may charge Borrower's deposit account for the amount of any item of payment which is returned to Bank unpaid."

5. The Loan Agreement shall be amended by deleting the following provision appearing as Section 2.4(g) thereof:

"(g) Unused Revolving Line Facility Fee. In addition to the foregoing, as compensation for Bank's maintenance of sufficient funds available for such purpose, Bank shall have earned a fee (the "Unused Revolving Line Facility Fee"), which fee shall be paid quarterly, in arrears, on a calendar year basis, in an amount equal to 0.375% per annum of the average unused portion of the Revolving Line, as determined by Bank. Borrower shall not be entitled to any credit, rebate or repayment of any Unused Revolving Line Facility Fee previously earned by Bank pursuant to this Section notwithstanding any termination of the within Agreement, or suspension or termination of Bank's obligation to make loans and advances hereunder."

and inserting in lieu thereof the following:

"(g) Unused Revolving Line Facility Fee. In addition to the foregoing, as compensation for Bank's maintenance of sufficient funds available for such purpose, Bank shall have earned a fee (the "Unused Revolving Line Facility Fee"), which fee shall be paid quarterly, in arrears, on a calendar year basis, in an amount equal to 0.50% per annum of the average unused portion of the Revolving Line, as determined by Bank. Borrower shall not be entitled to any credit, rebate or repayment of any Unused Revolving Line Facility Fee previously earned by Bank pursuant to this Section notwithstanding any termination of the within Agreement, or suspension or termination of Bank's obligation to make loans and advances hereunder."

6. The Loan Agreement shall be amended by inserting the following new provisions to appear as subsections (h), and (i) of Section 2.4 entitled "Fees":

"(h) Collateral Handling Fee. Borrower will pay to Bank a collateral handling fee equal to One Thousand Dollars ($1,000) per month, which fee shall be paid monthly, in arrears, on the first calendar day of each month (the "Collateral Handling Fee"); and

(i) Guaranteed Line Fee. The Guaranteed Line Fee, when due hereunder."

7. The Loan Agreement shall be amended by inserting the following new provision to appear as Section 3.2(c) thereof:

"(c) for each Guaranteed Advance, receipt by Bank of: (i) the Guaranteed Line Closing Deliverables, in form and substance satisfactory to Bank, and (ii) the Guaranteed Line Fee."

8. The Loan Agreement shall be amended by deleting the following provision appearing as Section 6.2(d) thereof:

"(d) Allow Bank to audit Borrower's Collateral at Borrower's expense. Such audits shall be conducted no more often than once every twelve (12) months unless an Event of Default has occurred and is continuing.

and inserting in lieu thereof the following:

"(d) Allow Bank to audit Borrower's Collateral at Borrower's expense. Such audits shall be conducted no more often than twice every twelve (12) months unless a Default or an Event of Default has occurred and is continuing. The charge for each audit shall not exceed Seven Hundred Fifty Dollars ($750.00) (or such higher amount as shall represent Bank's then-current standard charge for the same), per person, plus out of pocket expenses."

9. The Loan Agreement shall be amended by inserting the following to appear at the end of Section 6.2 thereof:

"Notwithstanding the foregoing, in the event that the sum of unrestricted cash at Bank plus the Availability Amount is less than Ten Million Dollars ($10,000,000)): (i) Borrower shall be required to provide Bank with a Transaction Report (and any schedules related thereto) on a weekly basis; and (ii) all proceeds collected in the Lockbox shall be applied to all outstanding Obligations on a daily basis, in accordance with the term of this Agreement. In addition to the foregoing, commencing on the first day of the month, following the month in which Borrower provides Bank with evidence that it has maintained unrestricted cash at Bank plus the Availability Amount in an amount equal to Ten Million Dollars ($10,000,000) for a period of forty-five (45) consecutive days, Borrower shall be required to provide Bank with a monthly Borrowing Base Certificate as set forth in Section 6.2(b) above."

10. The Loan Agreement shall be amended by deleting Section 6.7 entitled "Financial Covenants" in its entirety and inserting in lieu thereof there following:

"**6.7 Financial Covenants**. Borrower shall maintain at all times, to be tested as of the last day of each month, unless otherwise noted:

(a) **Tangible Net Worth**. Borrower shall maintain a Tangible Net Worth of at least (i) $* for *and (ii) (A) $* for *; (B) $* for *; (C) $* for *; (D) $* (E) * for *; (F) $* for *; (G) * for * and (H) * for *."

11. The Loan Agreement shall be amended by inserting the following new provision to appear as Section 6.9 thereof:

"**6.9 Guarantor Liquidity**. At all times, Guarantor shall have Callable Capital in an aggregate amount of at least two (2) times Guarantor Obligations, tested on a quarterly basis.

12. The Loan Agreement shall be amended by deleting the following definitions appearing in Section 13.1 thereof:

"**Borrowing Base**" is (i) eighty percent (80.0%) of Eligible Accounts plus (ii) eighty percent (80.0%) of Eligible Foreign Accounts (which percentage shall be reduced to forty-percent (40.0%) for any period in which Borrower's Adjusted Quick Ratio is less than 1.75 to 1.0), plus (iii) the lesser of forty percent (40.0%) of the value of Borrower's Eligible Inventory (valued at the lower of cost or wholesale fair market value) or fifty percent (50.0%) of the aggregate Eligible Accounts and Eligible Foreign Accounts as determined by Bank from Borrower's most recent Borrowing Base Certificate; provided, however, that Bank may lower the percentage of the Borrowing Base after performing an audit of Borrower's Collateral."

"**Credit Extensions**" is each Advance, Equipment Advance, 2005 Equipment Advance, 2007 Equipment Advance, Letter of Credit, F/X Forward Contract, or any other extension of credit by Bank for Borrower's benefit."

"**Guarantor**" is any present or future guarantor of the Obligations.

""**Revolving Maturity Date**" is March 10, 2009.

"Revolving Line" is an Advance or Advances of up to Twenty-Five Million Dollars ($25,000,000.00) (including Permitted Overadvances) outstanding at any time."

"**Tangible Net Worth**" is, on any date, the consolidated total assets of Borrower and its Subsidiaries minus (i) any amounts attributable to (a) goodwill, (b) intangible items including unamortized debt discount and expense, patents, trade and service marks and names, copyrights and research and development expenses except prepaid expenses, and (c) reserves not already deducted from assets, minus (ii) Total Liabilities, plus (iii) Subordinated Debt."

and inserting in lieu thereof the following:

"**Borrowing Base**" is (i) eighty percent (80.0%) of Eligible Accounts plus (ii) seventy percent (70.0%) of Eligible Foreign Accounts (which percentage shall be reduced to forty-percent (40.0%) for any period in which Borrower's Adjusted Quick Ratio is less than 1.75 to 1.0), plus (iii) the lesser of forty percent (40.0%) of the value of Borrower's Eligible Inventory (valued at the lower of cost or wholesale fair market value) or fifty percent (50.0%) of the aggregate Eligible Accounts and Eligible Foreign Accounts as determined by Bank from Borrower's most recent Borrowing Base Certificate; provided, however, that Bank may lower the percentage of the Borrowing Base after performing an audit of Borrower's Collateral.

"**Credit Extensions**" is each Advance, Equipment Advance, 2005 Equipment Advance, 2007 Equipment Advance, Letter of Credit, F/X Forward Contract, Guaranteed Advance, or any other extension of credit by Bank for Borrower's benefit.

"**Guarantor**" is any present or future guarantor of the Obligations, including without limitation, Sanderling Venture Partners VI Co-Investment Fund, L.P., Sanderling Beteiligungs GmbH & Co. KG, Sanderling VI Limited Partnership, and Alafi Capital Company, LLC.

"**Revolving Maturity Date"** is March 31, 2009.

"**Revolving Line**" is an Advance or Advances in an aggregate amount of up to Thirty Million Dollars ($30,000,000.00) outstanding at any time.

"**Tangible Net Worth**" is, on any date, the total assets of Borrower minus (a) any amounts attributable to (i) goodwill, (ii) intangible items including unamortized debt discount and expense, patents, trade and service marks and names, copyrights and research and development expenses except prepaid expenses, (iii) notes, accounts capitalized receivable and other obligations owing to Borrower from its officers or other Affiliates, and (iv) reserves not already deducted from assets, minus (b) Total Liabilities, plus (c) Subordinated Debt, plus without duplication (d) the aggregate amount of outstanding Guaranteed Advances."

13. The Loan Agreement shall be amended by inserting the following definitions to appear alphabetically in Section 13.1 thereof:

""**2008 Closing Date**" is _____ __, 2008.

"**Callable Capital**" is the remaining amount of capital, excluding capital attributable to Defaulting Partners, which Guarantor would be able to obtain from the General Partner and the Limited Partners, without condition, upon proper issuance of capital call notices in accordance with the Partnership Agreement

"**Collateral Handling Fee**" is defined in Section 2.4(h).

"**Defaulting Partner**" is the General Partner or any Limited Partner of a Guarantor who has previously failed to comply with any portion of a capital call made by such Guarantor unless: (i) such failure has been cured, or (ii) such Guarantor has substituted the Defaulting Partner with another partner, in accordance with the Partnership Agreement, who is in compliance with all of the terms of the Partnership Agreement

"**General Partner**" means the general partner of any Guarantor.

"**Guaranteed Advance**" or "**Guaranteed Advances**" is a loan advance (or advances) under the Guaranteed Line.

"**Guaranteed Line"** is a Guaranteed Advance or Guaranteed Advances of up to Ten Million Dollars ($10,000,000).

"**Guaranteed Line Closing Deliverables**" shall mean each of the following, each in a form acceptable to each Guarantor and Bank, for each Guarantor: (i) Unconditional Guaranty, together with the completed Resolutions for the subject Guaranteed Advance; (ii) Operating Documents; (iii) consolidated balance sheet and income statement covering such Guarantor's consolidated operations, together with valuation schedules for such Guarantor's portfolio companies; (iv) list of Limited Partners; (v) statement of current Callable Capital; and (vi) other financial information reasonably requested by Bank.

"**Guaranteed Line Fee**" shall be an additional fee payable to Bank in an amount equal to Five Thousand Dollars ($5,000.00), for each Guaranteed Advance.

"**Guaranteed Line Maturity Date**" is March 31, 2009.

"**Guarantor Obligations**" are the aggregate amount of all of Guarantor's Indebtedness.

"**Limited Partners**" means, for each Guarantor, the limited partners set forth in the Partnership Agreement for such Guarantor, as the same may be amended from time to time.

"**Operating Documents"** are, for any Person, such Person's formation documents, as certified with the Secretary of State of such Person's state of formation on a date that is no earlier than 30 days prior to the Funding 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. "

"**Partnership Agreement**" means, for each Guarantor, that certain Limited Partnership Agreement, as amended, by and among the Limited Partners and the General Partner for such Fund.

"**Transaction Report**" is that certain report of transactions and schedule of collections in the form attached hereto as Exhibit C.

"**Unconditional Guaranty**" means that certain unconditional guaranty executed by Guarantor in favor of Bank, in form and substance acceptable to Bank and Guarantor, in the sole discretion of Bank and such Guarantor."

14. The Borrowing Base Certificate appearing as Exhibit C to the Loan Agreement is hereby replaced with the Borrowing Base Certificate attached as Exhibit A hereto.

15. The Compliance Certificate appearing as Exhibit D to the Loan Agreement is hereby replaced with the Compliance Certificate attached as Exhibit B hereto.

4. FEES. Borrower shall pay to Bank a modification fee equal to One Hundred Fifty Thousand Dollars ($150,000.00), which fee shall be due on the date hereof and shall be deemed fully earned as of the date hereof. The Borrower shall also reimburse Bank for all legal fees and expenses incurred in connection with this amendment to the Existing Loan Documents.

5. APPLICATION OF PAYMENTS AND PROCEEDS. 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. If an Event of Default has occurred and is continuing, Bank may apply 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 in such order as Bank shall determine in its sole discretion. Any surplus shall be paid to Borrower or other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency. If Bank, in its good faith business judgment, 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.

6. RATIFICATION OF NEGATIVE PLEDGE AGREEMENT. Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and conditions of a certain Negative Pledge Agreement dated as of April 30, 2004, between Borrower and Bank, and acknowledges, confirms and agrees that said Negative Pledge Agreement, shall remain in full force and effect.

7. RATIFICATION OF PERFECTION CERTIFICATE. Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in a certain Perfection Certificate dated as of April 30, 2004, between Borrower and Bank, and acknowledges, confirms and agrees the disclosures and information Borrower provided to Bank in the Perfection Certificate has not changed, as of the date hereof.

8. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

9. RATIFICATION OF LOAN DOCUMENTS. Borrower hereby ratifies, confirms, and reaffirms all terms and conditions of all security or other collateral granted to the Bank, and confirms that the indebtedness secured thereby includes, without limitation, the Obligations.

10. NO DEFENSES OF BORROWER. Borrower hereby acknowledges and agrees that Borrower has no offsets, defenses, claims, or counterclaims against Bank with respect to the Obligations, or otherwise, and that if Borrower now has, or ever did have, any offsets, defenses, claims, or counterclaims against Bank, whether known or unknown, at law or in equity, all of them are hereby expressly WAIVED and Borrower hereby RELEASES Bank from any liability thereunder.

11. CONTINUING VALIDITY. Borrower understands and agrees that in modifying the existing Obligations, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank's agreement to modifications to the existing Obligations pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Obligations. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Obligations. It is the intention of Bank and Borrower to retain as liable parties all makers of Existing Loan Documents, unless the party is expressly released by Bank in writing. No maker will be released by virtue of this Loan Modification Agreement.

12. COUNTERSIGNATURE. This Loan Modification Agreement shall become effective only when it shall have been executed by Borrower and Bank

[The remainder of this page is intentionally left blank]

This Loan Modification Agreement is executed as of the date first written above.

BORROWER:

STEREOTAXIS, INC.

By: /s/ James M. Stolze
Name: James M. Stolze
Title: V.P. and CFO

BANK:

SILICON VALLEY BANK

By: /s/ Michael Kohnen
Name: Michael Kohnen
Title: Deal Team Leader

EXHIBIT A

BORROWING BASE CERTIFICATE

Borrower: Stereotaxis, Inc.
Lender: Silicon Valley Bank
Commitment Amount: $30,000,000.00

ACCOUNTS RECEIVABLE

1.	Accounts Receivable Book Value as of _____	$_____
2.	Additions (please explain on reverse)	$_____
3.	TOTAL ACCOUNTS RECEIVABLE	$_____

ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)

4.	Amounts over 120 days due	$_____
5.	Siemens accounts over 180 days due and are 60 day past due	
6.	Balance of 50% over 120 day accounts (except Siemens accounts over 180 days due and are 60 day past due)	$_____
7.	Credit balances over 90 days	$_____
8.	Concentration Limits (in excess of $2,000,000.00 for individual account debtors, except Siemens in excess of $3,000,000.00)	$_____
9.	Foreign Accounts	
10.	Governmental Accounts	$_____
11.	Contra Accounts	$_____
12.	Promotion or Demo Accounts	$_____
13.	Intercompany/Employee Accounts	$_____
14.	Other (please explain on reverse)	$_____
15.	TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS	$_____
16.	Eligible Accounts (#3 minus #15)	$_____
17.	LOAN VALUE OF ACCOUNTS (80% of #16)	$_____

ELIGIBLE FOREIGN ACCOUNTS

18.	Eligible Foreign Accounts	$_____
19.	LOAN VALUE OF ELIGIBLE FOREIGN ACCOUNTS (70% of #18, which shall be reduced to 40% of #18, if AQR <1.75: 1.0)	$_____

INVENTORY

20.	Inventory Value as of _____	$_____
21.	LOAN VALUE OF INVENTORY (lesser of 40% of #20 or 50% of #17 plus #19)	$_____

BALANCES

22.	Maximum Loan Amount	$_____
23.	Total Funds Available (Lesser of #22 or (#17 plus #19 and #21)	$_____
24.	Present balance owing on Line of Credit	$_____
25.	Outstanding under Sublimits (L/C, FX Contract, Cash Mgt.)	$_____
26.	RESERVE POSITION (#23 minus #24 and #25)	$_____

The undersigned represents and warrants that this is true, complete and correct, and that the information in this Borrowing Base Certificate complies with the representations and warranties in the Loan and Security Agreement between the undersigned and Silicon Valley Bank.

BANK USE ONLY

COMMENTS:

By: _____

AuthorizedSigner

Received by: _____

AUTHORIZED SIGNER

Date: _____

Verified: _____

AUTHORIZED SIGNER

Date: _____

Compliance Status: Yes No

EXHIBIT B

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
FROM: STEREOTAXIS, INC.

The undersigned authorized officer of Stereotaxis, Inc., ("Responsible Officer") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below and (ii) all representations and warranties in the Agreement are true and correct in all material respects on this date. Attached are the required documents supporting the certification. The Responsible Officer certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The Responsible Officer 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.

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

Reporting Covenant	Required	Complies
Monthly financial statements with CC	Monthly within 30 days	Yes No
Annual (CPA Audited) with CC	FYE within 120 days	Yes No
Inventory Report	Monthly within 30 days	Yes No
BBC A/R Agings	Monthly within 30 days	Yes No
Audit	Annually	Yes No
Bookings/Backlog Report	Monthly within 30 days	Yes No
Cash Balance/GAAP Balances (at Abn Ambro)	Monthly within 30 days	Yes No

Financial Covenant	Required	Actual	Complies
Maintain on a Monthly Basis:			
Tangible Net Worth	$_____*		

* As set forth in Section 6.9(a) of the Agreement.

Comments Regarding Exceptions: See Attached.

Sincerely,

_____
SIGNATURE

_____
TITLE

_____
Date

BANK USE ONLY

Received by: _____
AUTHORIZED SIGNER

Date: _____

Verified: _____
AUTHORIZED SIGNER

Date: _____

Compliance Status: Yes No

EXHIBIT C

TRANSACTION REPORT

[TO BE PREPARED BY BANK]

STEREOTAXIS, INC.

NOTE AND WARRANT PURCHASE AGREEMENT

THIS NOTE AND WARRANT PURCHASE AGREEMENT (this "Agreement") is executed on February 21, 2008, but effective as of February 7, 2008, by and among Stereotaxis, Inc., a Delaware corporation (the "Company"), Sanderling Venture Partners VI Co-Investment Fund, L.P., Sanderling VI Beteiligungs GmbH & Co KG, Sanderling VI Limited Partnership and Alafi Capital Company LLC (each, a "Lender" and together, the "Lenders").

Recitals

A. The Company wishes to obtain a commitment for additional financing which would allow the Company to draw funds as needed;

B. The Lenders wish to provide such commitment to the Company;

C. The Company and the Lenders have executed a binding commitment (the "Commitment") and desire to document such Commitment with this Agreement; and

D. In consideration of the above and the mutual covenants hereinafter set forth, the Company and the Lenders desire to agree on the terms of the Notes to be issued upon execution of this Agreement, and accordingly agree as follows:

1. The Notes.

1.1 The Notes. Each Lender is hereby committing, severally and not jointly, to make available to the Company up to an aggregate original principal amount as set forth opposite such Lender's name on the attached Schedule 1.1 (the "Committed Funds") during the Commitment Period, as defined in Section 1.2. Subject to and upon the terms and conditions set forth herein, and upon each draw by the Company and advance of funds by the Lenders (in an amount from each Lender equal to such Lender's pro rata portion of the aggregate Committed Funds, unless otherwise agreed to in writing by the Company and each Lender) as set forth in Section 1.3, the Company shall issue and sell to each Lender, and each Lender shall purchase from the Company, the Company's promissory notes (the "Notes"), in the form attached hereto as Exhibit A, up to the amount of such Lender's Committed Funds.

1.2 Commitment Period. The Lenders without condition make the Committed Funds available for the Company's use for a term (the "Commitment Period") which shall terminate upon the earlier of (i) February 9, 2009, and (ii) the date on which the Company actually receives additional financing from any third party (other than indebtedness of the Company to banks, commercial finance lenders and similar financial institutions) in the aggregate amount of not less than Twenty Million Dollars ($20,000,000) ("Qualified Financing"). The Company shall have the option to extend the Commitment Period through May 11, 2009. To extend the Commitment Period, the Company shall notify the Lender of its election

in writing, pursuant to the Notification Provision set out in Section 6.8, no less than 15 days before the original Commitment Period is scheduled to expire. In no event shall the Commitment Period extend beyond May 11, 2009.

1.3 Election to Draw on Committed Funds. The Company shall be entitled to draw on the Committed Funds in no more than ten (10) tranches, in minimum amounts of $1,000,000 each, up to an aggregate amount as set forth on the attached Schedule 1.1. To draw on the Committed Funds, the Company shall notify the Lenders of its election in writing, pursuant to the Notification Provision set out in Section 6.8, no less than fourteen (14) days before the requested advance (the "Drawdown Notice"). Each Lender shall advance to the Company its pro rata portion of such amount no later than fourteen (14) days after receiving the Drawdown Notice. Other than delivery of the Drawdown Notice, there shall be no preconditions or requirements with respect to the Company's ability to draw on the Committed Funds. The Lenders hereby acknowledge that the determination as to whether to make a draw at any time shall be at the discretion of the executive officers of the Company.

1.4 Maturity Date. All amounts due under the Notes shall become due and payable on the date (the "Maturity Date") that is the earlier of (i) February 9, 2009, and (ii) the date on which the Company consummates a Qualified Financing. The Company shall have the option to extend the Maturity Date to May 11, 2009. To extend the Maturity Date, the Company shall notify the Lenders of its election in writing, pursuant to the Notification Provision set out in Section 6.8, no less than thirty days before the original Maturity Date. In no event shall the Maturity Date be extendable to beyond May 11, 2009.

1.5 Optional Prepayment. The Company may at any time, prepay the unpaid principal amount of any of the Notes, or any part thereof, without penalty or premium, but with interest accrued to the date fixed for prepayment; provided, however, that if the Company makes a prepayment with respect to any Note, the Company must make prepayments to each Lender in amounts that are pro rata in proportion to the outstanding principal amount with respect to each such Note being prepaid and any other Note issued on the same day as such Note unless otherwise agreed to in writing by the Company and each Lender. Notice of prepayment shall be given by the Company by mail and shall be mailed to the Lenders not less than thirty (30) days prior to the date fixed for prepayment. Upon giving of notice of prepayment as aforesaid, any Note (or the portion thereof to be prepaid, as the case may be) shall on the prepayment date specified in such notice become due and payable; and from and after the prepayment date so specified (unless the Company shall default in making such prepayment) interest on such Note (or the portion thereof to be prepaid, as the case may be) shall cease to accrue and, on presentation and surrender hereof to the Company for cancellation, such Note (or the portion thereof to be prepaid as the case may be) shall be paid by the Company at the prepayment price aforesaid.

1.6 Interest. The Company shall pay interest on the unpaid balance of any advances under each Note at a per annum interest rate equal to the most favorable rate provided at the time of such advance by Silicon Valley Bank ("SVB") (or the Company's primary bank lender at the time of such advance if not SVB). Such interest shall be paid by the Company to the Lenders with the unpaid principal balance on the Maturity Date or in accordance with Section 1.5.

1.7 Guaranty.

(a) The Lenders acknowledge that the Company intends to enter into a modification of its current $25,000,000 revolving line of credit (as so modified, the "Amended Revolver"). It is anticipated that such Amended Revolver will provide for a line of credit (i) under a borrowing formula based on eligible domestic and foreign trade accounts receivable and eligible inventory (the "Borrowing Formula") and (ii) a non-formula guaranteed sub-limit (the "Guaranteed Sub-Limit"), subject to a guaranty to be provided by the Lenders hereunder. Upon written request of the Company to all the Lenders (a "Guaranty Request") at any time and from time to time during the Commitment Period, each Lender, severally and not jointly, agrees that it shall unconditionally guarantee repayment of such Lender's pro rata portion of an aggregate amount specified in such Guaranty Request; *provided that* such specified amount shall be a maximum amount, and in no event shall either (i) each such Lender's obligation to fund such guarantee exceed such Lender's pro rata portion of the amount drawn under the Guaranteed Sub-Limit to the extent such amount exceeds the amounts that could be borrowed by the Company under the Borrowing Formula or (ii) the aggregate amount specified in the Guaranty Request exceed the aggregate undrawn Committed Funds at the time of such Guaranty Request. Such agreement to guarantee shall be evidenced by, and each of the Lenders agrees to execute and deliver to the Bank as promptly as practicable (but no more than 10 days) following a Guaranty Request, a written guaranty agreement in a form mutually agreed to by the Lenders and the Bank and otherwise on commercially reasonable terms. Under the terms of such guaranty agreement, at the maturity of the Amended Revolver (which shall be no later than March 31, 2009), each Lender will fund a reduction to the Amended Revolver in an amount equal to outstanding loan balances that exceed the Borrowing Formula at that time. In the event the Lenders are required to make a payment to SVB pursuant to such guarantee, the amount of any such payment shall be deemed drawn by the Company pursuant to Section 1.3. The Company shall execute and deliver a Note to each Lender to the extent the Lender is required to fund such guaranty obligation, and principal and interest on such amounts shall be due at the Maturity Date.

(b) The Company may make multiple Guaranty Requests, but in minimum amounts of $1,000,000 per request. That amount of each Guaranty Request shall reduce the amount of Committed Funds that the Company may draw under Section 1.3 on a dollar-for-dollar basis. In connection with any such Guaranty Request, the Company shall pay or cause to be paid to each Lender no later than simultaneously with the delivery of the form of guarantee, an administrative fee equal to 1% of the amount so guaranteed by each such Lender (the "Administrative Fee"). The Company may direct that such Administrative Fee be paid directly by SVB to each Lender out of a simultaneous drawdown from the Amended Revolver. Other than delivery of the Guaranty Request and the Administrative Fee, there shall be no preconditions or requirements with respect to the Company's ability to cause Lenders to honor the guarantee obligation in this Section 1.7 up to the amount of undrawn Committed Funds. The Lenders hereby acknowledge that the determination as to whether to make a Guaranty Request at any time shall be at the discretion of the executive officers of the Company.

(c) Notwithstanding anything to the contrary herein, the Lenders' respective obligations under this Section 1.7 shall be several and not joint and several.

(d) As used in this Section 1.7, "undrawn Committed Funds" shall mean (1) the aggregate of Committed Funds less (2) (a) all amounts that have been actually been advanced by the Lenders to the Company hereunder, (b) the total of all requested advances in any Drawdown Notices that have not been withdrawn by the Company prior to advancement of funds by the Lenders and (c) the total amount guaranteed pursuant to previous Guaranty Requests.

2. Warrants.

2.1 In consideration for entering into and performing this Agreement, the Company shall grant to each Lender warrants (the "Warrants") to purchase shares of the Company's common stock, par value $0.001 per share ("Common Stock"). Such Warrants shall be in the form attached as Exhibit B. Each Lender shall receive the number of Warrants as follows:

(a) upon execution and delivery of this Agreement, a Warrant to purchase such number of shares of Common Stock as set forth opposite such Lender's name on the attached Schedule 1.1, which is equal to that portion of the Committed Funds to be loaned by each such Lender multiplied by 0.20, divided by the Exercise Price; and

(b) upon the first to occur of any extension of either (1) the Commitment Period under Section 1.2 or (2) the Maturity Date under Section 1.4, an additional Warrant to purchase such number of shares of Common Stock as set forth opposite such Lender's name on the attached Schedule 1.1, which is equal to that portion of the Committed Funds to be loaned by each such Lender multiplied by 0.05, divided by the Exercise Price, *provided that* only one adjustment shall be made pursuant to this Section 2.1(b).

Notwithstanding any other provision of this Agreement, in no event shall the number of shares issuable upon exercise of such Warrants exceed 19.9% of the outstanding Common Stock of the Company. The Warrants described in Section 2.1(a) shall be issued to the Lenders no later than February 29, 2008. If any Warrants are ever issuable pursuant to Section 2.1(b), such Warrants shall be issued to the Lenders no later than ten (10) business days after date on which the Company is obligated to issue such Warrants.

2.2 Registration Rights.

(a) Promptly following the execution and delivery of this Agreement, the Company shall use its reasonable best efforts to obtain an amendment, waiver or other similar document, from the holders of registrable securities under that certain that certain Fourth Amended and Restated Investor Rights Agreement dated as of December 17, 2002, as amended, including without limitation a waiver of any incidental or piggyback registration rights thereunder, to permit the registration of the shares of Common Stock issuable upon exercise of the Warrants ("Warrant Shares"). Within sixty (60) days after the date of this Agreement (or immediately following receipt of such waiver or amendment, if later), the Company shall file with the Securities and Exchange Commission (the "SEC") a registration statement with respect to the maximum number of Warrant Shares issuable upon exercise of the Warrants and use its reasonable best efforts to cause such registration statement to become effective, and to keep such

registration statement effective for up to ninety (90) days or until the Lenders have completed the distribution relating thereto (or in the alternative, if and to the extent available, cause such Warrant Shares to be included in a supplement to or on a post-effective amendment to a shelf registration statement previously filed by the Company). The Company shall not have any obligation to sell such shares in an underwritten offering.

(b) In connection therewith, the Company shall:

i. Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act of 1933, as amended (the "Securities Act"), with respect to the disposition of all securities covered by such registration statement.

ii. Furnish to the Lenders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Warrant Shares owned by them.

iii. Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the Lenders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

iv. Notify each Lender of Warrant Shares covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(b) The parties to this Agreement agree that they shall have such indemnification obligations as set forth on Schedule 2.2 hereto.

(c) Each Lender or other permitted holder of Warrant Shares included in any registration shall furnish to the Company such information regarding such person and the distribution proposed by such person as the Company may reasonably request in writing and as shall be required in connection with any registration or qualification referred to in this Section 2.2.

2.3 All expenses incurred in connection with the registration effected pursuant to Section 2.2, including without limitation all registration, filing, and qualification fees (including blue sky fees and expenses), printing expenses, escrow fees, fees and disbursements of counsel for the Company, reasonable fees and disbursements of one special counsel for the participating Lenders (collectively, "Registration Expenses"), shall be borne by the Company; provided, however, that the term Registration Expenses shall not include, and in no event will the Company be obligated to pay, stock transfer taxes or underwriters' discounts, or commissions relating to the Warrant Shares.

2.4 Certain Definitions.

"Trading Day" shall mean a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading is open for business.

"Closing Price" with respect to Common Stock on any day means the reported last sales price regular way on The NASDAQ Global Select Market ("NASDAQ"), or, if no such reported sale occurs on such day, the average of the closing bid and asked prices regular way on such day, in each case as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such class of security is listed or admitted to trading as reported by NASDAQ or any comparable system then in use or, if not so reported, as reported by any New York Stock Exchange member firm reasonably selected by the Company for such purpose.

"Exercise Price" shall mean $6.99, which represents the average of the daily Closing Prices of a share of the Common Stock for the five (5) consecutive Trading Days commencing January 31, 2008, which is the fifth (5th) Trading Date preceding the date on which the Company publicly announced that it has entered into the Commitment.

3. Representations and Warranties of the Company.

3.1 Organization and Standing. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. The Company has the requisite corporate power and authority to conduct its business as it is presently being conducted and to own and operate its properties and assets.

3.2 Corporate Power. The Company has all requisite corporate power and authority and has taken all corporate action necessary to execute and deliver this Agreement, to issue the Notes and Warrants and to carry out and perform its obligations under the terms of this Agreement.

3.3 Authorization. The execution, delivery and performance of this Agreement by the Company has been duly authorized by all requisite corporate action, and constitutes the valid and binding obligations of the Company, enforceable, in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, or similar laws relating to or affecting the enforcement of creditors' rights.

4. Representations and Warranties of the Lenders.

4.1 Representations and Warranties of the Lenders. Each Lender severally and not jointly, represents and warrants to the Company as follows:

(a) The Lender has all requisite power and authority to execute and deliver this Agreement, to consummate the transactions contemplated hereby and to perform its obligations hereunder. The execution and delivery of this Agreement by the Lender, and the

consummation by the Lender of the transactions contemplated hereby have been duly approved and no other corporate or other proceedings on the part of the Lender are or will be necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Lender and is a legal, valid and binding obligation of the Lender enforceable against the Lender in accordance with its respective terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, or similar laws relating to or affecting the enforcement of creditors' rights.

(b) The Lender is experienced in evaluating and investing in companies such as the Company. The Lender is a sophisticated investor with such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of a prospective investment in the Notes, the Warrants and the Warrant Shares (collectively, the "Securities") and who is capable of bearing the economic risks of such investment.

(c) The Lender is acquiring the Securities for investment for its own account and not with a view to, or for resale in connection with, any distribution thereof. The Lender understands that the Securities to be acquired have not been registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent as expressed herein. The Lender further represents that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to any third person with respect to any of the Securities. The Lender understands and acknowledges that the offering of the Securities pursuant to this Agreement will not be registered under the Securities Act on the ground that the sale provided for in this Agreement and the issuance of Securities hereunder is exempt from the registration requirements of the Securities Act.

(d) The Lender acknowledges that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from such registration is available. The Lender is aware of the provisions of Rule 144 promulgated under the Securities Act which permit limited resale of securities purchased in a private placement subject to the satisfaction of certain conditions. The Lender covenants that, in the absence of an effective registration statement covering the Securities in question, the Lender will sell, transfer, or otherwise dispose of the Securities only in a manner consistent with the Lender's representations and covenants set forth in this Section 4. In connection therewith, the Lender acknowledges that the Company will make a notation on its stock books regarding the restrictions on transfers set forth in this Section 4 and will transfer Securities on the books of the Company only to the extent not inconsistent therewith.

(e) The Lender understands that there will be no public market for either the Notes or Warrants.

(f) The Lender (or its authorized representative) has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and to review the Company's facilities. The Lender understands that such discussions, as well as the written information issued by the Company, were intended to describe the aspects of the Company's business and prospects which it believes to be material but were not necessarily a thorough or exhaustive description.

(g) The Lender represents that Lender is an "accredited investor" as such term is defined in Regulation D promulgated under the Securities Act. The Lender has the financial ability to perform or cause this Agreement to be performed, and shall provide to the Company reasonable evidence of such ability upon written request from time to time, subject to confidentiality reasonably requested by such Lender.

4.2 Legend. Each Note shall be endorsed with the following legend:

THE NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS, AND, ACCORDINGLY, THE NOTE MAY ONLY BE SOLD OR OTHERWISE TRANSFERRED TO A "PERMITTED TRANSFEREE" (AS DEFINED HEREIN) OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR IN A TRANSACTION EXEMPT FROM THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

THE INDEBTEDNESS EVIDENCED BY THIS INSTRUMENT IS SUBORDINATED TO THE PRIOR PAYMENT IN FULL OF SENIOR INDEBTEDNESS (AS DEFINED HEREIN) TO THE EXTENT PROVIDED HEREIN.

4.3 Each Lender agrees that in no event will it make a transfer or disposition of any of the Notes or Warrants (other than pursuant to an effective registration statement under the Securities Act), unless and until (i) it shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the disposition and assurance that the proposed disposition is in compliance with all applicable laws, and (ii) if reasonably requested by the Company, at the expense of such Lender or its transferee, it shall have furnished to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that such transfer may be made without registration under the Securities Act. Notwithstanding the foregoing, no formal notice or opinion of counsel shall be required for the transfer by a Lender to any of the following (each, a "Permitted Transferee"): (x) any partner of a Lender or to a retired partner of a Lender, who retires after the date of this Agreement, (y) the estate of any such partner or a retired partner or for the transfer by gift, will or intestate succession of any partner to his spouse or lineal descendants or ancestors or (z) any entity which is a wholly-owned subsidiary of the Lender or which is under common control with the Lender; provided, however, in all cases where no legal opinion is required that the transferee shall agree in writing to be subject to the terms of this Agreement to the same extent as if it were the original Lender hereunder.

5. Subordination. The indebtedness evidenced by the Notes shall be expressly subordinated, to the extent and in the manner set forth in the Notes, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as defined in the Notes. All other terms related to the subordination set forth in the Notes are incorporated herein by reference. The Company agrees that any future Junior Indebtedness, as defined in the Notes, shall be subordinate to the Notes on as set forth therein.

6. Miscellaneous.

6.1 Financial Statements. During the Commitment Period, the Company shall deliver or cause to be delivered to each of the Lenders, at the same time as such information is delivered to SVB, such financial statements and other financial information as delivered by the Company to SVB under the Amended Revolver or other principal loan documents then in place with SVB; *provided, however*, that notwithstanding the foregoing, such financial statements and other financial information shall be delivered to the Lenders no less frequently than monthly and shall at a minimum show (i) actual results operating results versus budgeted operating results, (ii) new purchase orders for Stereotaxis Niobe (or equivalent or successor) systems, and (iii) current backlog for such system orders as of the end of such period.

6.2 Waivers and Amendments. Any term of this Agreement may be amended or waived only with the written consent of the Company and all of the Lenders.

6.3 Governing Law. This Agreement shall be governed in all respects by the internal laws of the State of Delaware, without giving effect to principles of conflicts of law.

6.4 Attorney's Fees. If any action at law or in equity (including arbitration) is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

6.5 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

6.6 Entire Agreement; Conflict. This Agreement and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement among the parties with regard to the subjects hereof and thereof. Except as expressly provided herein, in the event of any conflict between the terms of this Agreement and the other documents as attached hereto, this Agreement shall control.

6.7 Severability of this Agreement. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

6.8 Titles and Subtitles; Construction. The titles of the Sections and Subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require.

6.9 Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon receipt, when delivered personally or by courier, overnight delivery service or confirmed facsimile, or forty-eight (48) hours after being deposited

in the U.S. mail as certified or registered mail with postage prepaid, if such notice is addressed to the party to be notified at such party's address or facsimile number as set forth below or as subsequently modified by written notice.

To the Company:

Stereotaxis, Inc.
4320 Forest Park Avenue, Suite 100
St. Louis, Missouri 63108
Fax: (314) 678-6110
Attention: Chief Executive Officer
Chief Financial Officer

Copy to:

Bryan Cave LLP
One Metropolitan Square
Suite 3600
St. Louis, MO 63102
Fax: (314) 259-2020
Attn: James L. Nouss, Jr., Esq.
Robert J. Endicott, Esq.

To the Lenders:

To the addresses specified on Schedule 1.1 hereto.

6.10 Counterparts. This Agreement may be executed by facsimile and in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one instrument.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered as described in the introductory paragraph to this Agreement.

THE COMPANY:

STEREOTAXIS, INC.

By: /s/ James M. Stolze
Name: JAMES M. STOLZE
Title: VICE PRESIDENT & CFO

THE LENDERS:

SANDERLING VENTURE PARTNERS VI CO-INVESTMENT FUND, L.P.

By: Middleton, McNeil, Mills & Associates VI, LLC

By: /s/ Fred A. Middleton
Fred A. Middleton, Managing Director

SANDERLING VI LIMITED PARTNERSHIP

By: Middleton, McNeil, Mills & Associates VI, LLC

By: /s/ Fred A. Middleton
Fred A. Middleton, Managing Director

SANDERLING VI BETEILIGUNGS GMBH & CO. KG

By: Middleton, McNeil, Mills & Associates VI, LLC

By: /s/ Fred A. Middleton
Fred A. Middleton, Managing Director

ALAFI CAPITAL COMPANY LLC

By: /s/ Christopher Alafi
Christopher Alafi, Manager

Schedule 1.1

Lender Name and Address	Committed Funds	Warrant shares pursuant to Section 2.1(a)	Warrant shares pursuant to Section 2.1(b)
Sanderling Venture Partners VI Co-Investment Fund, L.P. [Separately on file with the Company]	$ 9,593,135.54	274,482 shares of Common Stock	68,621 shares of Common Stock
Sanderling VI Beteiligungs GmbH & Co KG [Separately on file with the Company]	$ 185,656.59	5,312 shares of Common Stock	1,328 shares of Common Stock
Sanderling VI Limited Partnership [Separately on file with the Company]	$ 221,207.87	6,329 shares of Common Stock	1,582 shares of Common Stock
Alafi Capital Company LLC [Separately on file with the Company]	$ 10,000,000	286,123 shares of Common Stock	71,531 shares of Common Stock
Total	$ 20,000,000	572,246 shares of Common Stock	143,062 shares of Common Stock

Schedule 2.2

Indemnification

(a) The Company will, and does hereby undertake to, indemnify and hold harmless each Lender, each of such Lender's officers, directors, partners and agents, and each person controlling such Lender, with respect to any registration or qualification of the Warrant Shares held by or issuable to such Lender effected pursuant to the Agreement to which this Schedule 2.2 is appended, and each underwriter of such registration, if any, and each person who controls any underwriter, against all claims, losses, damages, and liabilities (or actions in respect thereto) to which they may become subject under the Securities Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or other federal or state law arising out of or based on (i) any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular, or other similar document (including any related registration statement, notification, or the like) incident to any such registration or qualification, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any violation or alleged violation by the Company of any federal, state or common law rule or regulation applicable to the Company in connection with any such registration or qualification, and will reimburse, as incurred, each such Lender, each such underwriter, and each such director, officer, partner, agent and controlling person, for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability, or action; provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense, arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by an instrument duly executed by such Lender or underwriter and stated to be specifically for use therein.

(b) Each Lender will, if Warrant Shares held by or issuable to such Lender are included in such registration or qualification, of the Company's securities, severally and not jointly, indemnify the Company, each of its directors, and each officer who signs a registration statement in connection therewith, and each person controlling the Company, each underwriter of such registration, if any, and each person who controls any such underwriter, and each other Lender, each of such other Lender's officers, partners, directors and agents and each person controlling such other Lender, against all claims, losses, damages, and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular, or other similar document (including any related registration statement, notification, or the like) incident to any such registration or qualification, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse, as incurred, the Company, each such underwriter, each such other Lender, and each such director, officer, partner, and controlling person, for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability, or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) was made in such registration statement, prospectus, offering circular, or other document, in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Lender and stated to be specifically for use therein. In no event will any Lender be required to

enter into any agreement or undertaking in connection with any registration under the Agreement providing for any indemnification or contribution obligations on the part of such Lender greater than such Lender's obligations under this Schedule 2.2. The liability of each Lender hereunder shall be limited to the proportion of any such loss, claim, damage, liability or expense which is equal to the proportion that the public offering price of the shares sold by such Lender under such registration statement bears to the total public offering price of all securities sold thereunder, but not in any event to exceed the net proceeds received by such Lender from the sale of Warrant Shares covered by such registration statement.

(c) Each party entitled to indemnification under this Schedule 2.2 (the "Indemnified Party") shall give notice to the party required to provide such indemnification (the "Indemnifying Party") of any claim as to which indemnification may be sought promptly after such Indemnified Party has actual knowledge thereof, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom; provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be subject to approval by the Indemnified Party (whose approval shall not be unreasonably withheld) and the Indemnified Party may participate in such defense at the Indemnifying Party's expense if representation of such Indemnified Party would be inappropriate due to actual or potential differing interests between such Indemnified Party and any other party represented by such counsel in such proceeding; and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under the Agreement, except to the extent that such failure to give notice shall materially adversely affect the Indemnifying Party in the defense of any such claim or any such litigation. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff therein, to such Indemnified Party, of a release from all liability in respect to such claim or litigation.

Exhibit A

Form of Note

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS, AND, ACCORDINGLY, THIS NOTE MAY ONLY BE SOLD OR OTHERWISE TRANSFERRED TO A "PERMITTED TRANSFEREE" (AS DEFINED HEREIN) OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR IN A TRANSACTION EXEMPT FROM THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

THE INDEBTEDNESS EVIDENCED BY THIS INSTRUMENT IS SUBORDINATED TO THE PRIOR PAYMENT IN FULL OF SENIOR INDEBTEDNESS (AS DEFINED HEREIN) TO THE EXTENT PROVIDED HEREIN.

STEREOTAXIS, INC.
TERM NOTE

$_____ _____, 200_
St. Louis, Missouri

1. General. Stereotaxis, Inc., a Delaware corporation (the "Company"), for value received, hereby promises to pay to the order of _____ (the "Holder") the principal sum of _____ Dollars ($_____), on the date (the "Maturity Date") which is the earlier of (i) February 9, 2009, or (ii) the date upon which the Company obtains up to Twenty Million Dollars ($20,000,000) of Qualified Financing (as such term is defined in the Purchase Agreement referred to below), in such coin or currency of the United States of America as at the time of payment shall be legal tender therein for the payment of public and private debts, and to pay interest on the unpaid balance of the principal hereof from the date hereof, at the times and in the amounts as provided in that certain Note and Warrant Purchase Agreement by and among the Company and the Holder and the other lender set forth therein, effective February 7, 2008, as the same may from time to time be amended, modified or supplemented (the "Purchase Agreement"); provided that the Company shall have the option, pursuant to the terms of the Purchase Agreement, to extend the Maturity Date to May 11, 2009. Notice of extension of the Maturity Date shall be given by the Company by mail and shall be mailed to the Holder not less than 30 days prior to the date fixed for such Maturity Date extension. All payments of principal and interest on this Term Note (this "Note") shall be made at the offices of the Company. In the event that the principal amount of this Note is not paid in full when such amount becomes due and payable, interest at the rate of **[____]** percent (**[____]**%) (the "Default Rate")1 shall continue to accrue on the balance of any unpaid principal until such balance is paid.

1 Default Rate to be inserted shall be the most favorable default rate provided by SVB at the time the Note is issued.

This Note is issued in connection with the Purchase Agreement and the Holder is subject to certain restrictions set forth in this Note and the Purchase Agreement and shall be entitled to certain rights and privileges set forth in the same.

2. Optional Prepayment. The Company may at any time, prepay the unpaid principal amount of this Note, or any part thereof, without penalty or premium, but with interest accrued to the date fixed for prepayment. Notice of prepayment shall be given by the Company by mail and shall be mailed to the Holder not less than fifteen (15) days prior to the date fixed for prepayment. Upon giving of notice of prepayment as aforesaid, this Note (or the portion thereof to be prepaid, as the case may be) shall on the prepayment date specified in such notice become due and payable; and from and after the prepayment date so specified (unless the Company shall default in making such prepayment) interest on this Note (or the portion thereof to be prepaid, as the case may be) shall cease to accrue and, on presentation and surrender hereof to the Company for cancellation, this Note (or the portion thereof to be prepaid as the case may be) shall be paid by the Company at the prepayment price aforesaid.

3. Events of Default. If any of the events specified in this Section 3 shall occur (herein individually referred to as an "Event of Default"), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Default in the payment of the principal and unpaid accrued interest of this Note when due and payable if such default is not cured by the Company within ten (10) days after the Holder has given the Company written notice of such default; or

(ii) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Code, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action; or

(iii) If, within sixty (60) days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation,

such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company stayed, or if the stay of any such order or proceeding shall thereafter be set aside, or if, within sixty (60) days after the appointment without the consent or acquiescence of the Company of any trustee, receiver or liquidator of the Company or of all or any substantial part of the properties of the Company, such appointment shall not have been vacated.

At any time that the unpaid principal balance of this Note, together with all accrued and unpaid interest owing thereon, shall have become due and payable in full pursuant to this Section 3, the aggregate of all such sums shall thereafter bear interest, both before and after judgment, at the Default Rate until such sums have been paid. In such event, all payments made thereafter shall be applied first to unpaid interest hereon, then to the principal of this Note.

4. Subordination. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as hereinafter defined.

4.1. Senior Indebtedness. As used in this Note, the term "Senior Indebtedness" shall mean the principal of and unpaid accrued interest on: (i) all indebtedness of the Company to Silicon Valley Bank or its affiliates or any other banks, commercial finance lenders or similar financial institutions, which is for money borrowed by the Company (whether or not secured) ("Financial Institution Debt"), and (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Financial Institution Debt, or any indebtedness arising from the satisfaction of such Financial Institution Debt by a guarantor.

4.2. Default on Senior Indebtedness. If there should occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation or any other marshalling of the assets and liabilities of the Company, then (i) no amount shall be paid by the Company in respect of the principal of or interest on this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the Holder of this Note that shall assert any right to receive any payments in respect of the principal of and interest on this Note, except subject to the payment in full of the principal of and interest on all of the Senior Indebtedness then outstanding. If there occurs an event of default that has been declared in writing with respect to any Senior Indebtedness, or in the instrument under which any Senior Indebtedness is outstanding, permitting the holder of such Senior Indebtedness to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note.

4.3. Effect of Subordination. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 4 to receive cash, securities or other properties otherwise payable or deliverable to the Holder of this Note, nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

4.4. Subrogation. Subject to the payment in full of all Senior Indebtedness and until this Note shall be paid in full, the Holder shall be subrogated to the rights of the holders of Senior Indebtedness (to the extent of payments or distributions previously made to such holders of Senior Indebtedness pursuant to the provisions of Section 4.2 above) to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for the purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness.

4.5. Undertaking. By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the lender of any Senior Indebtedness in order to implement the foregoing provisions of this Section 4.

4.6. Subordination of Junior Indebtedness. In connection with the Company's incurrence of any future convertible indebtedness or other indebtedness of the Company in respect of borrowed money evidenced by bonds, notes, debentures or similar instruments or letters of credit that is other than Financial Institution Debt ("Junior Indebtedness"), the Company agrees that any such Junior Indebtedness shall be subordinate to this Note on substantially the same terms as are provided under this Article 4.

5. Warrant Agreement. Warrants shall be issued by the Company pursuant to the Purchase Agreement, which together with the Form of Warrant to be issued thereunder shall govern all aspects of the Warrants, including without limitation the term, exercise price and all adjustments to the number of shares of common stock issuable upon exercise thereof.

6. Assignment. Subject to the restrictions on transfer described in Section 12 below, the rights and obligations of the Company and the Holder of this Note shall be binding upon and benefit the successors, permitted assigns, heirs, administrators and transferees of the parties.

7. Waiver and Amendment. Any provision of this Note may be amended, waived or modified pursuant to the terms of the Purchase Agreement.

8. Heading; References. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

9. Notices. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or if faxed or mailed by registered or certified mail, postage prepaid, at the respective addresses of the parties as set forth herein. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally delivered or when deposited in the mail or faxed in the manner set forth above and shall be deemed to have been received when delivered.

10. No Stockholder Rights. Nothing contained in this Note shall be construed as conferring upon the Holder or any other person the right to vote or to consent or to receive notice as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, excluding that body of law relating to conflict of laws.

12. Transfer Restrictions. The Holder agrees that in no event will it make a transfer or disposition of any of this Note (other than pursuant to an effective registration statement under the Securities Act), unless and until (i) it shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the disposition and assurance that the proposed disposition is in compliance with all applicable laws, and (ii) if reasonably requested by the Company, at the expense of such Holder or its transferee, it shall have furnished to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that such transfer may be made without registration under the Securities Act. Notwithstanding the foregoing, no formal notice or opinion of counsel shall be required for the transfer by an Holder to any of the following (each, a "Permitted Transferee"): (x) any partner of a Holder or to a retired partner of a Holder, who retires after the date of this Note, (y) the estate of any such partner or a retired partner or for the transfer by gift, will or intestate succession of any partner to his spouse or lineal descendants or ancestors or (z) any entity which is a wholly-owned subsidiary of the Holder or

which is under common control with the Holder; provided, however, in all cases where no legal opinion is required that the transferee shall agree in writing to be subject to the terms of this Note to the same extent as if it were the original Holder hereunder.

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IN WITNESS WHEREOF, the Company has caused this Note to be issued this __ day of _____, 200_.

STEREOTAXIS, INC.

By: _____
Name:
Title:

Name of Holder: _____

Address: _____
_____
_____

Exhibit B

Form of Warrant

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT (AS DEFINED HEREIN), OR UNDER ANY STATE SECURITIES LAWS, IN RELIANCE UPON EXEMPTIONS FROM REGISTRATION FOR NON-PUBLIC OFFERINGS. THIS SECURITY MAY ONLY BE SOLD OR OTHERWISE TRANSFERRED TO A "PERMITTED TRANSFEREE" (AS DEFINED HEREIN) OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR IN A TRANSACTION EXEMPT FROM THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

Effective Date: _____, 200_ Warrant No.: _____

STEREOTAXIS, INC.

COMMON STOCK PURCHASE WARRANT

TO PURCHASE SHARES OF
COMMON STOCK, $0.001 PAR VALUE PER SHARE

This is to certify that, FOR VALUE RECEIVED, _____ ("Warrantholder"), is entitled to purchase, subject to the provisions of this Common Stock Purchase Warrant ("Warrant"), from Stereotaxis, Inc., a corporation organized under the laws of Delaware ("Company"), at any time and from time to time after the issuance date hereof (the "Exercise Date") but not later than 5:00 P.M., St. Louis, Missouri time, on February 9, 2013 (the "Expiration Date"), _____ shares ("Warrant Shares") of Common Stock, $0.001 par value ("Common Stock"), of the Company, at an exercise price per share equal to $6.99 (the exercise price in effect from time to time hereafter being herein called the "Warrant Price"). The number of Warrant Shares purchasable upon exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time as described herein.

This Warrant has been issued pursuant to the terms of the Note and Warrant Purchase Agreement (the "Purchase Agreement"), effective February 7, 2008, by and among the Company, the Warrantholder and the other lender set forth therein. Capitalized terms used herein and not defined shall have the meaning specified in the Purchase Agreement.

1. Registration. The Company shall maintain books for the transfer and registration of the Warrant. Upon the initial issuance of the Warrant, the Company shall issue and register the Warrant in the name of the Warrantholder.

2. Transfers. As provided herein, this Warrant may be transferred only pursuant to a registration statement filed under the Securities Act of 1933, as amended (the "Securities Act"), or an exemption from registration thereunder. Subject to such restrictions, the Company shall transfer this Warrant from time to time, upon the books to be maintained by the Company for that purpose, upon surrender hereof for transfer properly endorsed or accompanied

by appropriate instructions for transfer upon any such transfer, and a new Warrant shall be issued to the transferee and the surrendered Warrant shall be canceled by the Company. References to Warrantholder or holder shall include any such transferee.

3. Exercise of Warrant.

(a) Subject to the provisions hereof, the Warrantholder may exercise this Warrant to purchase the Warrant Shares, in whole or in part, at any time and from time to time on and after the Exercise Date and before the Expiration Date upon surrender of the Warrant, together with delivery of the duly executed Warrant exercise form attached hereto (the "Exercise Agreement") (which may be by fax), to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), and upon payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company of the Warrant Price for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record owner of such shares, as of the close of business on the date on which the completed Exercise Agreement shall have been delivered to the Company (or such later date as may be specified in the Exercise Agreement). Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding five (5) business days, after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be requested by the holder hereof and shall be registered in the name of such holder or such other name as shall be designated by such holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of such certificates, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

(b) Certain Definitions.

"Trading Day" shall mean a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading is open for business.

"Closing Price" with respect to Common Stock on any day means the reported last sales price regular way on The NASDAQ Global Select Market ("NASDAQ"), or, if no such reported sale occurs on such day, the average of the closing bid and asked prices regular way on such day, in each case as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such class of security is listed or admitted to trading as reported by NASDAQ or any comparable system then in use or, if not so reported, as reported by any New York Stock Exchange member firm reasonably selected by the Company for such purpose.

4. Cashless Exercise. The Warrantholder may, at its election exercised in its sole discretion, exercise this Warrant and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Warrant Price for the Warrant Shares specified in the Exercise Agreement, elect instead to receive upon such exercise the "Net Number" of shares of Common Stock determined according to the following formula (a "Cashless Exercise"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A = the total number of shares with respect to which this Warrant is then being exercised.

B = the Closing Price of the Common Stock on NASDAQ on the Trading Day immediately preceding the date of the Exercise Notice.

C = the Warrant Price then in effect for the applicable Warrant Shares at the time of such exercise.

5. Compliance with the Securities Act. Neither this Warrant nor the Common Stock issued upon exercise hereof nor any other security issued or issuable upon exercise of this Warrant may be offered or sold except as provided in this Warrant and in conformity with the Securities Act, and then only against receipt of an agreement of such person to whom such offer of sale is made to comply with the provisions of this Section 5 with respect to any resale or other disposition of such security. The Company may cause the legend set forth on the first page of this Warrant to be set forth on each Warrant or similar legend on the Warrant Shares or any other security issued or issuable upon exercise of this Warrant until the Warrant Shares have been registered for resale, unless counsel for the Company is of the opinion as to any such security that such legend is unnecessary.

6. Payment of Taxes. The Company will pay any documentary stamp taxes attributable to the initial issuance of Warrant Shares issuable upon the exercise of the Warrant; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificates for Warrant Shares in a name other than that of the registered holder of this Warrant in respect of which such shares are issued. The holder shall be responsible for income taxes due under federal or state law, if any such tax is due.

7. Mutilated or Missing Warrants. In case this Warrant shall be mutilated, lost, stolen, or destroyed, the Company shall issue in exchange and substitution of and upon cancellation of the mutilated Warrant, or in lieu of and substitution for the Warrant lost, stolen or destroyed, a new Warrant of like tenor and for the purchase of a like number of Warrant Shares, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction of the Warrant, and with respect to a lost, stolen or destroyed Warrant, reasonable indemnity or bond with respect thereto, if reasonably requested by the Company.

8. Reservation of Common Stock. The Company hereby represents and warrants that there have been reserved, and the Company shall at all applicable times keep reserved, out of the authorized and unissued Common Stock, a number of shares sufficient to provide for the exercise of the rights of purchase represented by the Warrant in full (without

regard to any restrictions on beneficial ownership contained herein), and the transfer agent for the Common Stock, including every subsequent transfer agent for the Common Stock or other shares of the Company's capital stock issuable upon the exercise of any of the right of purchase aforesaid ("Transfer Agent"), shall be irrevocably authorized and directed at all times to reserve such number of authorized and unissued shares of Common Stock as shall be requisite for such purpose. The Company agrees that all Warrant Shares issued upon exercise of the Warrant in accordance with its terms shall be, at the time of delivery of the certificates for such Warrant Shares, duly authorized, validly issued, fully paid and non-assessable shares of Common Stock of the Company.

9. Warrant Price. The Warrant Price, subject to adjustment as provided in Section 10 hereof, shall, if payment is made in cash or by certified check, be payable in lawful money of the United States of America.

10. Adjustment of Warrant Exercise Price and Number of Shares. If the Company at any time after the date of issuance of this Warrant subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Warrant Price in effect immediately prior to such subdivision will be proportionately reduced and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately increased. If the Company at any time after the date of issuance of this Warrant combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Warrant Price in effect immediately prior to such combination will be proportionately increased and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately decreased. Any adjustment under this Section 10 shall become effective at the close of business on the date the subdivision or combination becomes effective.

11. Replacement Warrants. The Company agrees that after any request from time to time of the Warrantholder and within ten (10) business days upon the Company's receipt of this Warrant, the Company shall deliver to such holder a new Warrant in substitution of this Warrant which is identical in all respects except that the then Warrant Price shall be appropriately specified in the Warrant, and the Warrant shall specify the fixed number of Warrant Shares into which this Warrant is then exercisable. Such changes are intended not as amendments to the Warrant but only as clarification of the adjustment in the preceding Section for convenience purposes, and such adjustments shall not affect any provisions concerning adjustments to the Warrant Price or number of Warrant Shares contained herein.

12. Fractional Interest. The Company shall not be required to issue fractions of Warrant Shares upon the exercise of the Warrant. If any fraction of a Warrant Share would, except for the provisions of this Section, be issuable upon the exercise of the Warrant (or specified portions thereof), the Company shall round such calculation to the nearest whole number and disregard the fraction.

13. Benefits. Nothing in this Warrant shall be construed to give any person, firm or corporation (other than the Company and the Warrantholder) any legal or equitable right, remedy or claim, it being agreed that this Warrant shall be for the sole and exclusive benefit of the Company and the Warrantholder.

14. Notices to Warrantholder. Upon the happening of any event requiring an adjustment of the Warrant Price, the Company shall forthwith give written notice thereof to the Warrantholder at the address appearing in the records of the Company, stating the adjusted Warrant Price and the adjusted number of Warrant Shares resulting from such event and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. In the event of a dispute with respect to any such calculation, the certificate of the Company's independent certified public accountants shall be conclusive evidence of the correctness of any computation made, absent manifest error. Failure to give such notice to the Warrantholder or any defect therein shall not affect the legality or validity of the subject adjustment.

15. Identity of Transfer Agent. The Transfer Agent for the Common Stock is Bank of New York. Forthwith upon the appointment of any subsequent transfer agent for the Common Stock or other shares of the Company's capital stock issuable upon the exercise of the rights of purchase represented by the Warrant, the Company will fax to the Warrantholder a statement setting forth the name and address of such transfer agent.

16. Notices. Any notice pursuant hereto to be given or made by the Warrantholder to or on the Company shall be sufficiently given or made if delivered personally or by facsimile or if sent by an internationally recognized courier, addressed as follows:

Stereotaxis, Inc.
4320 Forest Park Avenue, Suite 100
St. Louis, Missouri 63108
Fax: (314) 678-6110
Attention: Chief Financial Officer

or such other address as the Company may specify in writing by notice to the Warrantholder complying as to delivery with the terms of this Section 16.

Any notice pursuant hereto to be given or made by the Company to or on the Warrantholder shall be sufficiently given or made if personally delivered or if sent by an internationally recognized courier service by overnight or two-day service, to the address set forth on the books of the Company or, as to each of the Company and the Warrantholder, at such other address as shall be designated by such party by written notice to the other party complying as to delivery with the terms of this Section 16.

All such notices, requests, demands, directions and other communications shall, when sent by courier, be effective two (2) days after delivery to such courier as provided and addressed as aforesaid. All faxes shall be effective upon receipt.

17. Registration Rights. The holder of this Warrant is entitled to the benefit of certain registration rights in respect of the Warrant Shares as provided in the Purchase Agreement.

18. Successors. Subject to the restrictions on transfer described in Section 21 below, all the covenants and provisions hereof by or for the benefit of the Warrantholder shall bind and inure to the benefit of its respective successors and assigns hereunder.

19. Governing Law. This Warrant shall be deemed to be a contract made under the laws of the State of Delaware, without giving effect to its conflict of law principles, and for all purposes shall be construed in accordance with the laws of said State.

20. Absolute Obligation to Issue Warrant Shares. The Company's obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the holder hereof to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any person or entity or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the holder hereof or any other Person of any obligation to the Company or any violation or alleged violation of law by the holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the holder hereof in connection with the issuance of Warrant Shares. The Company will at no time close its shareholder books or records in any manner which interferes with the timely exercise of this Warrant.

21. Assignment, etc. The Warrantholder agrees that in no event will it make a transfer or disposition of any of this Warrant or the Warrant Shares (other than pursuant to an effective registration statement under the Securities Act), unless and until (i) it shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the disposition and assurance that the proposed disposition is in compliance with all applicable laws, and (ii) if reasonably requested by the Company, at the expense of such Warrantholder or its transferee, it shall have furnished to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that such transfer may be made without registration under the Securities Act. Notwithstanding the foregoing, no formal notice or opinion of counsel shall be required for the transfer by an Warrantholder to any of the following (each, a "Permitted Transferee"): (x) any partner of a Warrantholder or to a retired partner of a Warrantholder, who retires after the date of this Warrant, (y) the estate of any such partner or a retired partner or for the transfer by gift, will or intestate succession of any partner to his spouse or lineal descendants or ancestors or (z) any entity which is a wholly-owned subsidiary of the Warrantholder or which is under common control with the Warrantholder; provided, however, in all cases where no legal opinion is required that the transferee shall agree in writing to be subject to the terms of this Warrant to the same extent as if it were the original Warrantholder hereunder.

IN WITNESS WHEREOF, the Company has caused this Common Stock Purchase Warrant to be duly executed as of the date first written above.

STEREOTAXIS, INC.

By: _____
Name:
Title:

STEREOTAXIS, INC.
WARRANT EXERCISE FORM

Stereotaxis, Inc.

4320 Forest Park Avenue, Suite 100

St. Louis, Missouri 63108

Fax: (314) 678-6110

Attention: Chief Financial Officer

This undersigned hereby irrevocably elects to exercise the right of purchase represented by the Common Stock Purchase Warrant ("Warrant") for, and to purchase thereunder _____ shares of Common Stock ("Warrant Shares") provided for therein, and requests that certificates for the Warrant Shares be issued as follows:

Name: _____
Address: _____
_____
_____

and, if the number of Warrant Shares shall not be all the Warrant Shares purchasable upon exercise of the Warrant, that a new Warrant for the balance of the Warrant Shares.

Dated: _____

Signature: _____

Print Name: _____

Address: _____
_____
_____

Exhibit 21.1

List of Subsidiaries of Stereotaxis, Inc.

Name	State (Jurisdiction) of Incorporation or Organization
Stereotaxis International, Inc.	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-137006) of Stereotaxis, Inc. pertaining to the registration of up to 1,150,849 shares of its common stock, $.001 par value, the Registration Statement (Form S-3 No. 333-137007) of Stereotaxis, Inc. pertaining to the registration of $75,000,000 of its debt securities, common stock, preferred stock, warrants, or units, the Registration Statement (Form S-3 No. 333-129629) of Stereotaxis, Inc. pertaining to the registration of $75,000,000 of its common stock, preferred stock, warrants or units, and the Registration Statement (Form S-8 No. 333-120135) pertaining to the Stereotaxis, Inc. 2004 Employee Stock Purchase Plan, the Stereotaxis, Inc. 2002 Stock Incentive Plan, the Stereotaxis, Inc. 2002 Non-Employee Directors' Stock Plan, and the Stereotaxis, Inc. 1994 Stock Plan of our reports dated March 13, 2008, with respect to the financial statements and schedule of Stereotaxis, Inc., and the effectiveness of internal control over financial reporting of Stereotaxis, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2007.

/s/ Ernst & Young, LLP

St. Louis, Missouri
March 13, 2008

Exhibit 31.1

Certification of Principal Executive Officer

I, Bevil J. Hogg, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: March 13, 2008

/s/ BEVIL J. HOGG

Bevil J. Hogg
Chief Executive Officer
Stereotaxis, Inc.
(Principal Executive Officer)

Exhibit 31.2

Certification of Principal Financial Officer

I, James M. Stolze, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: March 13, 2008

/s/ JAMES M. STOLZE

James M. Stolze
Vice President and Chief Financial Officer
Stereotaxis, Inc.
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the annual report of Stereotaxis, Inc. (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bevil J. Hogg, 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:

(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: March 13, 2008

/s/ BEVIL J. HOGG

Bevil J. Hogg
Chief Executive Officer
Stereotaxis, Inc.

Exhibit 32.2

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

In connection with the annual report of Stereotaxis, Inc. (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. Stolze, Vice President and 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:

(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: March 13, 2008

/s/ JAMES M. STOLZE

James M. Stolze
Vice President and Chief Financial Officer
Stereotaxis, Inc.