

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

**FORM 10-Q**

(MARK ONE)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2022**

**OR**

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

**COMMISSION FILE NUMBER 001-36159**

**STEREOTAXIS, INC.**

(Exact name of the Registrant as Specified in its Charter)

**DELAWARE**

(State or Other Jurisdiction of  
Incorporation or Organization)

**94-3120386**

(I.R.S. Employer  
Identification Number)

**710 North Tucker Boulevard, Suite 110  
St. Louis, MO 63101  
(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:**

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, par value \$0.001 per share</b>	<b>STXS</b>	<b>NYSE American LLC</b>

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T "See 232.405 of this Chapter" during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer  Accelerated Filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

The number of outstanding shares of the registrant's common stock on October 31, 2022 was 74,844,714.

**STEREOTAXIS, INC.  
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## ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.  
BALANCE SHEETS*(in thousands, except share amounts)*

	September 30, 2022	December 31, 2021
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 30,938	\$ 38,739
Restricted cash - current	618	454
Accounts receivable, net of allowance of \$227 and \$180 at 2022 and 2021, respectively	5,077	5,406
Inventories, net	8,161	4,433
Prepaid expenses and other current assets	1,285	2,356
Total current assets	46,079	51,388
Property and equipment, net	3,409	2,632
Restricted cash	875	952
Operating lease right-of-use assets	5,479	5,735
Prepaid and other non-current assets	233	278
Total assets	<u>\$ 56,075</u>	<u>\$ 60,985</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 3,941	\$ 4,189
Accrued liabilities	3,211	2,528
Deferred revenue	8,043	6,277
Current portion of operating lease liabilities	359	268
Total current liabilities	15,554	13,262
Long-term deferred revenue	1,416	2,238
Operating lease liabilities	5,586	5,842
Other liabilities	168	219
Total liabilities	22,724	21,561
Series A - Convertible preferred stock:		
Convertible preferred stock, Series A, par value \$0.001; 22,386 and 22,387 shares outstanding at 2022 and 2021, respectively	5,584	5,584
Stockholders' equity:		
Convertible preferred stock, Series B, par value \$0.001; 10,000,000 shares authorized, 5,610,121 shares outstanding at 2022 and 2021	6	6
Common stock, par value \$0.001; 300,000,000 shares authorized, 74,832,278 and 74,618,240 shares issued at 2022 and 2021, respectively	75	75
Additional paid in capital	540,706	532,641
Treasury stock, 4,015 shares at 2022 and 2021	(206)	(206)
Accumulated deficit	(512,814)	(498,676)
Total stockholders' equity	27,767	33,840
Total liabilities and stockholders' equity	<u>\$ 56,075</u>	<u>\$ 60,985</u>

See accompanying notes.

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

<i>(in thousands, except share and per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Revenue:</b>				
Systems	\$ 2,413	\$ 3,541	\$ 4,649	\$ 8,829
Disposables, service and accessories	5,244	5,319	16,197	17,211
Sublease	-	246	-	740
<b>Total revenue</b>	<b>7,657</b>	<b>9,106</b>	<b>20,846</b>	<b>26,780</b>
<b>Cost of revenue:</b>				
Systems	2,016	3,375	3,817	6,200
Disposables, service and accessories	1,074	751	2,868	2,558
Sublease	-	246	-	740
<b>Total cost of revenue</b>	<b>3,090</b>	<b>4,372</b>	<b>6,685</b>	<b>9,498</b>
<b>Gross margin</b>	<b>4,567</b>	<b>4,734</b>	<b>14,161</b>	<b>17,282</b>
<b>Operating expenses:</b>				
Research and development	2,818	2,500	8,158	7,584
Sales and marketing	3,111	2,910	9,337	8,902
General and administrative	3,690	3,944	10,986	10,335
<b>Total operating expenses</b>	<b>9,619</b>	<b>9,354</b>	<b>28,481</b>	<b>26,821</b>
<b>Operating loss</b>	<b>(5,052)</b>	<b>(4,620)</b>	<b>(14,320)</b>	<b>(9,539)</b>
Interest income (expense), net	135	1	182	(5)
Gain on extinguishment of debt	-	-	-	2,183
<b>Net loss</b>	<b>\$ (4,917)</b>	<b>\$ (4,619)</b>	<b>\$ (14,138)</b>	<b>\$ (7,361)</b>
Cumulative dividend on convertible preferred stock	(339)	(338)	(1,005)	(1,007)
<b>Net loss attributable to common stockholders</b>	<b>\$ (5,256)</b>	<b>\$ (4,957)</b>	<b>\$ (15,143)</b>	<b>\$ (8,368)</b>
<b>Net loss per share attributable to common stockholders:</b>				
Basic	\$ (0.07)	\$ (0.07)	\$ (0.20)	\$ (0.11)
Diluted	\$ (0.07)	\$ (0.07)	\$ (0.20)	\$ (0.11)
<b>Weighted average number of common shares and equivalents:</b>				
Basic	76,100,007	75,700,389	75,977,920	75,476,381
Diluted	76,100,007	75,700,389	75,977,920	75,476,381

**See accompanying notes.**

**STEREOTAXIS, INC**  
**STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY**  
(Unaudited)

**Three Months Ended September 30, 2021**

<i>(in thousands, except share amounts)</i>	Convertible Preferred Stock Series A (Mezzanine)		Convertible Preferred Stock Series B		Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at June 30, 2021	22,407	\$ 5,578	5,610,121	\$ 6	74,428,865	\$ 74	\$ 527,294	\$ (206)	\$ (490,702)	\$ 36,466
Issuance of common stock					54,146	1	107			108
Share-based compensation					53,454		2,597			2,597
Components of net loss									(4,619)	(4,619)
Employee stock purchase plan					2,952		27			27
Preferred stock conversion	(20)	6			39,781		(6)			(6)
Balance at September 30, 2021	<u>22,387</u>	<u>\$ 5,584</u>	<u>5,610,121</u>	<u>\$ 6</u>	<u>74,579,198</u>	<u>\$ 75</u>	<u>\$ 530,019</u>	<u>\$ (206)</u>	<u>\$ (495,321)</u>	<u>\$ 34,573</u>

**Three Months Ended September 30, 2022**

<i>(in thousands, except share amounts)</i>	Convertible Preferred Stock Series A (Mezzanine)		Convertible Preferred Stock Series B		Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at June 30, 2022	22,386	\$ 5,584	5,610,121	\$ 6	74,686,056	\$ 75	\$ 537,963	\$ (206)	\$ (507,897)	\$ 29,941
Issuance of common stock					31,437		22			22
Share-based compensation					100,027		2,695			2,695
Components of net loss									(4,917)	(4,917)
Employee stock purchase plan					14,758		26			26
Balance at September 30, 2022	<u>22,386</u>	<u>\$ 5,584</u>	<u>5,610,121</u>	<u>\$ 6</u>	<u>74,832,278</u>	<u>\$ 75</u>	<u>\$ 540,706</u>	<u>\$ (206)</u>	<u>\$ (512,814)</u>	<u>\$ 27,767</u>

See accompanying notes.

**STEREOTAXIS, INC**  
**STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY**  
**(Unaudited)**

**Nine Months Ended September 30, 2021**

<i>(in thousands, except share amounts)</i>	Convertible Preferred Stock Series A (Mezzanine)		Convertible Preferred Stock Series B		Common Stock		Additional Paid-In Capital Amount	Treasury Stock Amount	Accumulated Deficit Amount	Total Stockholders' Equity (Deficit) Amount
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2020	22,513	\$ 5,605	5,610,121	\$ 6	73,694,203	\$ 74	\$ 522,710	\$ (206)	\$ (487,960)	\$ 34,624
Issuance of common stock					298,730	1	446			447
Share-based compensation					325,954		6,753			6,753
Components of net loss									(7,361)	(7,361)
Employee stock purchase plan					14,159		89			89
Preferred stock conversion	(126)	(21)			246,152		21			21
Balance at September 30, 2021	<u>22,387</u>	<u>\$ 5,584</u>	<u>5,610,121</u>	<u>\$ 6</u>	<u>74,579,198</u>	<u>\$ 75</u>	<u>\$ 530,019</u>	<u>\$ (206)</u>	<u>\$ (495,321)</u>	<u>\$ 34,573</u>

**Nine Months Ended September 30, 2022**

<i>(in thousands, except share amounts)</i>	Convertible Preferred Stock Series A (Mezzanine)		Convertible Preferred Stock Series B		Common Stock		Additional Paid-In Capital Amount	Treasury Stock Amount	Accumulated Deficit Amount	Total Stockholders' Equity (Deficit) Amount
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2021	22,387	\$ 5,584	5,610,121	\$ 6	74,618,240	\$ 75	\$ 532,641	\$ (206)	\$ (498,676)	\$ 33,840
Issuance of common stock					71,960		67			67
Share-based compensation					110,726		7,906			7,906
Components of net loss									(14,138)	(14,138)
Employee stock purchase plan					29,327		92			92
Preferred stock conversion	(1)				2,025					-
Balance at September 30, 2022	<u>22,386</u>	<u>\$ 5,584</u>	<u>5,610,121</u>	<u>\$ 6</u>	<u>74,832,278</u>	<u>\$ 75</u>	<u>\$ 540,706</u>	<u>\$ (206)</u>	<u>\$ (512,814)</u>	<u>\$ 27,767</u>

See accompanying notes.

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

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (14,138)	\$ (7,361)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	298	80
Non-cash lease (expense)	90	111
Share-based compensation	7,906	6,753
Gain on debt extinguishment	-	(2,183)
Non-cash interest	-	24
Changes in operating assets and liabilities:		
Accounts receivable	329	(1,558)
Inventories	(3,280)	(559)
Prepaid expenses and other current assets	1,071	(668)
Compensating cash arrangement	-	(1)
Other assets	45	55
Accounts payable	687	1,492
Accrued liabilities	(19)	(647)
Deferred revenue	1,199	2,650
Other liabilities	(51)	85
Net cash used in operating activities	(5,863)	(1,727)
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(2,009)	(201)
Net cash used in investing activities	(2,009)	(201)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of stock, net of issuance costs	159	536
Net cash provided by financing activities	159	536
Net decrease in cash, cash equivalents, and restricted cash	(7,713)	(1,392)
Cash, cash equivalents, and restricted cash at beginning of period	40,144	43,940
<b>Cash, cash equivalents, and restricted cash at end of period</b>	\$ 32,431	\$ 42,548
Supplemental disclosure of cash flow information:		
Purchase of property and equipment included in accounts payable	\$ 163	\$ 830
<b>Reconciliation of cash, cash equivalents, and restricted cash to balance sheet as of September 30th:</b>		
Cash and cash equivalents	\$ 30,938	\$ 40,243
Restricted cash - current	618	1,605
Restricted cash	875	700
<b>Total cash, cash equivalents, and restricted cash</b>	\$ 32,431	\$ 42,548

See accompanying notes.

**STEREOTAXIS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**

**Notes to Financial Statements**

In this report, “Stereotaxis”, the “Company”, “Registrant”, “we”, “us”, and “our” refer to Stereotaxis, Inc. and its wholly owned subsidiaries. Genesis RMN<sup>®</sup>, Niobe<sup>®</sup>, Navigant<sup>®</sup>, Odyssey<sup>®</sup>, Odyssey Cinema<sup>™</sup>, Vdrive<sup>®</sup>, Vdrive Duo<sup>™</sup>, V-CAS<sup>™</sup>, V-Loop<sup>™</sup>, V-Sono<sup>™</sup>, QuikCAS<sup>™</sup> and Cardiodrive<sup>®</sup> are trademarks of Stereotaxis, Inc. All other trademarks that appear in this report are the property of their respective owners.

**1. Description of Business**

Stereotaxis is a pioneer and global leader in surgical robotics for minimally invasive endovascular intervention. We design, manufacture and market robotic systems, instruments and information systems for the interventional laboratory. Our proprietary robotic technology, Robotic Magnetic Navigation, fundamentally transforms endovascular interventions using precise computer-controlled magnetic fields to directly control the tip of flexible interventional catheters or devices. Direct control of the tip of an interventional device, in contrast to all manual hand-held devices that are controlled from their handle, can improve the precision, stability, reach and safety of these devices during procedures.

Our primary clinical focus has been electrophysiology, specifically cardiac ablation procedures for the treatment of arrhythmias. Cardiac ablation has become a well-accepted therapy for arrhythmias and a multi-billion-dollar medical device market with expectations for substantial long-term growth. We have shared our aspiration and a product strategy to expand the clinical focus of our technology to several additional endovascular indications including coronary, neuro, and peripheral interventions.

There is substantial real-world evidence and clinical literature for Robotic Magnetic Navigation in electrophysiology. Hundreds of electrophysiologists at over one hundred hospitals globally have treated over 100,000 arrhythmia patients with our robotic technology. Clinical use of our technology has been documented in over 400 clinical publications. Robotic Magnetic Navigation is designed to enable physicians to complete more complex interventional procedures with greater success and safety by providing image-guided delivery of catheters through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied computer-controlled magnetic fields that govern the motion of the working tip of the catheter, resulting in improved navigation. The more flexible atraumatic design of catheters driven using magnetic fields may reduce the risk of patient harm and other adverse events. Performing the procedure from a control cockpit enables physicians to complete procedures in a safe location protected from x-ray exposure, with greater ergonomics, and improved efficiency. We believe these benefits can be applicable in other endovascular indications where navigation through complex vasculature is often challenging or unsuccessful and generates significant x-ray exposure.

Our primary products include the *Genesis RMN System*, the *Odyssey Solution*, and other related devices. We also offer to our customers the Stereotaxis Imaging Model S x-ray System and other accessory devices.

The *Genesis RMN System* is designed to enable physicians to complete more complex interventional procedures by providing image-guided delivery of catheters 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, resulting in improved navigation, efficient procedures, and reduced x-ray exposure.

The *Odyssey Solution* consolidates lab information onto one large integrated display, enabling physicians to view and control all the key information in the operating room. This is designed to improve lab layout and procedure efficiency. The system also features a remote viewing and recording capability called *Odyssey Cinema*, which is an innovative solution that delivers synchronized content for optimized workflow, advanced care, and improved productivity. This tool includes an archiving capability that allows clinicians to store and replay entire procedures or segments of procedures. This information can be accessed from locations throughout the hospital local area network and over the global Odyssey Network providing physicians with a tool for clinical collaboration, remote consultation, and training.

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



We have received regulatory clearances and registration approvals necessary for us to market the *Genesis RMN* System in the U.S. and Europe, and we are in the process of obtaining necessary registrations for extending our markets in other countries. The *Niobe* System, *Odyssey* Solution, *Cardiodrive*, and various disposable interventional devices have received regulatory clearance in the U.S., Europe, Canada, China, Japan and various other countries. We have received the regulatory clearance, licensing and/or CE Mark approvals that allow us to market the *Vdrive* and *Vdrive Duo* Systems with the *V-CAS*, *V-Loop* and *V-Sono* devices in the U.S., Canada and Europe. Stereotaxis Imaging Model S x-ray System is CE marked and FDA cleared.

We have strategic relationships with technology leaders and innovators in the global interventional market. Through these strategic relationships we provide compatibility between our robotic magnetic navigation system and digital imaging and 3D catheter location sensing technology, as well as disposable interventional devices. The maintenance of these strategic relationships, or the establishment of equivalent alternatives, is critical to our commercialization efforts. There are no guarantees that any existing strategic relationships will continue, and efforts are ongoing to ensure the availability of integrated systems and devices and/or equivalent alternatives. We cannot provide assurance as to the timeline of the ongoing availability of such compatible systems or our ability to obtain equivalent alternatives on competitive terms or at all.

## **2. Summary of Significant Accounting Policies**

### ***Basis of Presentation***

The accompanying unaudited financial statements of Stereotaxis, Inc. have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by GAAP for complete financial statements. In the opinion of management, they include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Operating results for the nine-month period ended September 30, 2022, are not necessarily indicative of the results that may be expected for the year ending December 31, 2022, or for future operating periods.

These interim financial statements and the related notes should be read in conjunction with the annual financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission (SEC) on March 10, 2022.

Certain prior year amounts have been reclassified to conform to the 2022 presentation.

### ***Risks and Uncertainties***

The novel coronavirus COVID-19 (“COVID-19”) pandemic has resulted, and is likely to continue to result, in significant, periodic disruptions to the economy, as well as business and capital markets around the world. The full extent of the impact of the COVID-19 pandemic on our business, results of operations and financial condition will depend on numerous evolving factors that we may not be able to accurately predict.

As a result of the COVID-19 outbreak, we have experienced business disruptions, including travel restrictions on us and our third-party distributors, which have negatively affected our complex sales, marketing, installation, distribution and service network relating to our products and services. The COVID-19 pandemic may continue to negatively affect demand for both our systems and our disposable products by limiting the ability of our sales personnel to maintain their customary contacts with customers as governmental authorities institute prolonged quarantines, travel restrictions, and shelter-in-place orders, or as our customers impose limitations on contacts and in-person meetings that go beyond those imposed by governmental authorities.

In addition, many of our hospital customers, for whom the purchase of our system involves a significant capital purchase which may be part of a larger construction project at the customer site (typically the construction of a new building), may themselves be under economic pressures. This may cause delays or cancellations of current purchase orders and other commitments and may exacerbate the long and variable sales and installation cycles for our robotic magnetic navigation systems. We may also experience significant reductions in demand for our disposable products as our healthcare customers (physicians and hospitals) continue to re-prioritize the treatment of patients and divert resources away from non-coronavirus areas, which we anticipate will lead to the performance of fewer procedures in which our disposable products are used. In addition, patients may consider foregoing or deferring procedures utilizing our products, even if physicians and hospitals are willing to perform them, which could also reduce demand for, and sales of, our disposable products.

As of the date of the filing of this Quarterly Report on Form 10-Q, we believe our manufacturing operations and supply chains have been manageably impacted, but we cannot guarantee that they will not be impacted more severely in the future. If our manufacturing operations or supply chains are materially interrupted, it may not be possible for us to timely manufacture relevant products at required levels, or at all. Changes in economic conditions and supply chain constraints could lead to higher inflation than previously experienced or expected, which could, in turn, lead to an increase in costs. We may be unable to raise the prices of our products sufficiently to keep up with the rate of inflation. A material reduction or interruption to any of our manufacturing processes or a substantial increase in costs would have a material adverse effect on our business, operating results, and financial condition.

If governmental authorities around the world reinstitute prolonged mandatory closures, social distancing protocols and shelter-in-place orders, or as private parties on whom we rely to operate our business put in place their own protocols that go beyond those instituted by relevant governmental authorities, our ability to adequately staff and maintain our operations or further our product development could be negatively impacted.

Any disruption to the capital markets could negatively impact our ability to raise capital. If the capital markets are disrupted for an extended period of time and we need to raise additional capital, such capital may not be available on acceptable terms, or at all. Continued disruptions to the capital markets and other financing sources could also negatively impact our hospital customers’ ability to raise capital or otherwise obtain financing to fund their operations and capital projects. Such could result in delayed spending on current projects, a longer sales cycle for new projects where a large capital commitment is required, and decreased demand for our disposable products as well as an increased risk of customer defaults or delays in payments for our systems installation, service contracts and disposable products.

We continue to evaluate and, where appropriate, take actions to reduce costs and spending across our organization. We will continue to actively monitor the situation and may take further actions that alter our business operations that may be required by federal, state, or local governmental authorities that may be implemented by our vendors, supplier or customers, or that we determine are in the best interests of our employees, customers, suppliers and stockholders.



### ***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.

### ***Restricted Cash***

Restricted cash primarily consists of cash that the Company is obligated to maintain in accordance with contractual obligations. The Company's restricted cash was \$1.5 million and \$1.4 million as of September 30, 2022 and December 31, 2021, respectively.

### ***Financial Instruments***

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

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

The Company's financial assets consist of restricted cash and cash equivalents invested in money market funds which totaled \$1.5 million and \$1.4 million as of September 30, 2022 and December 31, 2021, respectively. The financial assets consisting of cash equivalents invested in money market funds are classified as Level 2 and total interest income recorded for these investments was less than \$0.2 million during the nine months ended September 30, 2022 and insignificant during the year ended December 31, 2021. As of September 30, 2022 and December 31, 2021, the Company did not have any financial liabilities valued at fair value on a recurring basis.

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

The Company accounts for revenue in accordance with Accounting Standards Codification Topic 606 ("ASC 606"), "Revenue from Contracts with Customers".

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

We account for a contract with a customer when there is a legally enforceable contract between the Company and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. We record our revenue based on consideration specified in the contract with each customer, net of any taxes collected from customers that are remitted to government authorities.

For contracts containing multiple products and services, the Company accounts for individual products and services as separate performance obligations if they are distinct, which is if a product or service is separately identifiable from other items in the bundled package, and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The Company recognizes revenues as the performance obligations are satisfied by transferring control of the product or service to a customer.

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

Our revenue recognition policy affects the following revenue streams in our business as follows:

#### **Systems:**

Contracts related to the sale of systems typically contain separate obligations for the delivery of system(s), installation and an implied obligation to provide software enhancements if and when available for one year following installation. Revenue is recognized when the Company transfers control to the customer, which is generally at the point when acceptance occurs that indicates customer acknowledgment of delivery or installation, depending on the terms of the arrangement. Revenue from the implied obligation to deliver software enhancements if and when available is recognized ratably over the first year following installation of the system as the customer receives the right to software enhancements throughout the period and is included in Other Recurring Revenue. The Company's system contracts do not provide a right of return. Systems are generally covered by a one-year assurance type warranty; warranty costs were \$0.1 million and \$0.2 million for the nine months ended September 30, 2022 and 2021, respectively. Revenue from system delivery and installation represented 22% and 33% of revenue for the nine months ended September 30, 2022 and 2021, respectively.

### Disposables:

Revenue from sales of disposable products is recognized when control is transferred to the customers, which generally occurs at the time of shipment, but can also occur at the time of delivery depending on the customer arrangement. Disposable products are covered by an assurance type warranty that provides for the return of defective products. Warranty costs were not material for the nine months ended September 30, 2022 and 2021. Disposable revenue represented 29% and 23% of revenue for the nine months ended September 30, 2022 and 2021, respectively.

### Royalty:

The Company is entitled to royalty payments from Biosense Webster, payable quarterly based on net revenues from sales of the co-developed catheters. Royalty revenue from the co-developed catheters represented 8% and 7% of revenue for the nine months ended September 30, 2022 and 2021, respectively.

### Other Recurring Revenue:

Other recurring revenue includes revenue from product maintenance plans, other post warranty maintenance, and the implied obligation to provide software enhancements if and when available for a specified period, typically one year following installation of our systems. Revenue from services and software enhancements is deferred and amortized over the service or update period, which is typically one year. Revenue related to services performed on a time-and-materials basis is recognized when performed. Other recurring revenue represented 41% and 34% of revenue for the nine months ended September 30, 2022 and 2021, respectively.

### Sublease Revenue:

A portion of our former principal executive office was subleased to a third party through 2021. The sublease ended December 31, 2021. In accordance with Accounting Standards Update (ASU) 2016-02, "Leases" (Topic 842), the Company recorded sublease income as revenue. Sublease revenue represented 3% of revenue for the nine months ended September 30, 2021.

The following table summarizes the Company's revenue for systems, disposables, service and accessories and sublease for the nine months ended September 30, 2022 and 2021 (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Systems	\$ 2,413	\$ 3,541	\$ 4,649	\$ 8,829
Disposables, service and accessories	5,244	5,319	16,197	17,211
Sublease	-	246	-	740
Total revenue	\$ 7,657	\$ 9,106	\$ 20,846	\$ 26,780

Transaction price allocated to remaining performance obligations relates to amounts allocated to products and services for which the revenue has not yet been recognized. A significant portion of this amount relates to the Company's systems contracts and obligations that will be recognized as revenue in future periods. These obligations are generally satisfied within two years after contract inception but may occasionally extend longer. Transaction price representing revenue to be earned on remaining performance obligations on system contracts was approximately \$13.9 million as of September 30, 2022. Performance obligations arising from contracts for disposables, royalty and service are generally expected to be satisfied within one year after entering into the contract.

The following table summarizes the Company's contract assets and liabilities (in thousands):

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Contract Assets - unbilled receivables	\$ 351	\$ 178
Customer deposits	\$ 1,813	\$ 925
Product shipped, revenue deferred	1,644	1,794
Deferred service and license fees	6,002	5,796
Total deferred revenue	\$ 9,459	\$ 8,515
Less: Long-term deferred revenue	(1,416)	(2,238)
Total current deferred revenue	\$ 8,043	\$ 6,277

The Company invoices its customers based on the billing schedules in its sales arrangements. Contract assets primarily represent the difference between the revenue that was earned but not billed on service contracts and revenue from system contracts that was recognized based on the relative selling price of the related satisfied performance obligations and the contractual billing terms in the arrangements. Customer deposits primarily relate to future system sales but can also include deposits on disposable sales. Deferred revenue is primarily related to service contracts, for which the service fees are billed up-front, generally quarterly or annually, and for amounts billed in advance for system contracts for which some performance obligations remain outstanding. For service contracts, the associated deferred revenue is generally recognized ratably over the service period. For system contracts, the associated deferred revenue is recognized when the remaining performance obligations are satisfied. The Company did not have any impairment losses on its contract assets for the periods presented.

Revenue recognized for the nine months ended September 30, 2022 and 2021, that was included in the deferred revenue balance at the beginning of each reporting period was \$5.6 million and \$4.8 million, respectively.

#### *Assets Recognized from the Costs to Obtain a Contract with a Customer*

The Company has determined that sales incentive programs for the Company's sales team meet the requirements to be capitalized as the Company expects to generate future economic benefits from the related revenue generating contracts after the initial capital sales transaction. The costs capitalized as contract acquisition costs included in prepaid expenses and other assets, in the Company's balance sheet was \$0.2 million as of September 30, 2022 and December 31, 2021. The Company did not incur any impairment losses during any of the periods presented.

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

#### *Stock-Based Compensation*

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

For time-based awards, the Company utilizes the Black-Scholes valuation model to determine the fair value of stock options and stock appreciation rights at the date of grant. The resulting compensation expense is recognized over the requisite service period, which is generally four years. Restricted shares and units granted to employees are valued at the fair market value at the date of grant. The Company amortizes the fair market value to expense over the service period. If the shares are subject to performance objectives, the resulting compensation expense is amortized over the anticipated vesting period and is subject to adjustment based on the actual achievement of objectives.

For market-based awards, stock-based compensation expense is recognized over the minimum service period regardless of whether or not the market target is probable of being achieved. The fair value of such awards is estimated on the grant date using Monte Carlo simulations.

Shares purchased by employees under the 2009 and 2022 Employee Stock Purchase Plans are considered to be non-compensatory.

#### *Net Earnings (Loss) per Common Share*

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

The following table sets forth the computation of basic and diluted EPS (in thousands except for share and per share amounts):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net loss	\$ (4,917)	\$ (4,619)	\$ (14,138)	\$ (7,361)
Cumulative dividend on convertible preferred stock	(339)	(338)	(1,005)	(1,007)
Net loss attributable to common stockholders	<u>\$ (5,256)</u>	<u>\$ (4,957)</u>	<u>\$ (15,143)</u>	<u>\$ (8,368)</u>
Weighted average number of common shares and equivalents:	76,100,007	75,700,389	75,977,920	75,476,381
Basic EPS	\$ (0.07)	\$ (0.07)	\$ (0.20)	\$ (0.11)
Diluted EPS	\$ (0.07)	\$ (0.07)	\$ (0.20)	\$ (0.11)

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

As of September 30, 2022, the Company had 3,239,133 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$4.29 per share, 46,849,717 shares of our common stock issuable upon conversion of our Series A Convertible Preferred Stock, 5,610,121 shares of our common stock issuable upon conversion of our Series B Convertible Preferred Stock and 1,208,739 shares of unvested restricted share units. The Company had no unearned restricted shares outstanding as of September 30, 2022.

### **Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments” and also issued subsequent amendments to the initial guidance under ASU 2018-19, ASU 2019-04 and ASU 2019-05. The standard modifies the measurement approach for credit losses on financial instruments, including trade receivables, from an incurred loss method to a current expected credit loss method, otherwise known as “CECL.” The standard requires the measurement of expected credit losses to be based on relevant information, including historical experience, current conditions and a forecast that is supportable. The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years; early adoption is permitted. The standard must be adopted by applying a cumulative adjustment to retained earnings. The Company anticipates adopting the standard in the first quarter of 2023, although it does not expect a significant impact to the Company’s financial results.

### **3. Inventories**

Inventories consist of the following (in thousands):

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Raw materials	\$ 6,831	\$ 3,642
Work in process	384	133
Finished goods	2,825	2,823
Reserve for excess and obsolescence	(1,879)	(2,165)
<b>Total inventory</b>	<b>\$ 8,161</b>	<b>\$ 4,433</b>

The reserve for excess and obsolescence primarily includes Niobe Systems and related raw materials and spare parts.

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

Prepaid expenses and other assets consist of the following (in thousands):

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Prepaid expenses	\$ 599	\$ 1,012
Prepaid commissions	213	229
Deposits	640	1,276
Other assets	66	117
<b>Total prepaid expenses and other assets</b>	<b>1,518</b>	<b>2,634</b>
Less: Noncurrent prepaid expenses and other assets	(233)	(278)
<b>Total current prepaid expenses and other assets</b>	<b>\$ 1,285</b>	<b>\$ 2,356</b>

### **5. Property and Equipment**

Property and Equipment consist of the following (in thousands):

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Equipment	\$ 3,770	\$ 3,670
Leasehold improvements	2,507	17
Construction in process	478	2,156
	6,755	5,843
Less: Accumulated depreciation	(3,346)	(3,211)
<b>Net property and equipment</b>	<b>\$ 3,409</b>	<b>\$ 2,632</b>

The Company had approximately \$1.0 million of property and equipment additions during the nine months ended September 30, 2022 associated with the buildout of the new leased space in St. Louis, Missouri.

## 6. Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company accounts for leases in accordance with Accounting Standards Update No. 2016-02 “Leases” (Topic 842) and all subsequent ASUs that modified Topic 842 (“ASC 842”). The Company determines if an arrangement contains a lease at inception.

The Company leases its facilities under operating leases. In accordance with ASC 842, operating lease agreements are recognized on the balance sheet as a right-of-use (“ROU”) asset and a corresponding lease liability. These leases generally do not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Further, the leases do not contain contingent rent provisions. Many of our leases include both lease and non-lease components which are accounted for as a single lease component as we have elected the practical expedient to group lease and non-lease components for all leases. A portion of our former principal executive office was subleased to a third party through 2021. The sublease did not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. In addition, the sublease did not contain contingent rent provisions nor were there options to extend or terminate the sublease. The sublease ended December 31, 2021.

The Company’s lease agreements often include one or more options to renew at the Company’s discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. The Company elected not to include short-term leases (i.e. leases with initial terms of twelve months or less) on the balance sheet.

On March 1, 2021, the Company entered into an office lease agreement (the “Lease”) with Globe Building Company (the “Landlord”), under which the Company leases executive office space and manufacturing facilities of approximately 43,100 square feet of rentable space located at 710 N. Tucker Boulevard, St. Louis, Missouri (the “Premises”) that serves as the Company’s new principal executive and administrative offices and manufacturing facility. Lease payments commenced on January 1, 2022, and the lease has a term of ten years, with two renewal options of five years each. The minimum annual rent under the terms of the Lease ranges from approximately \$0.8 million in 2022 to \$1.0 million in 2031. The Company gained access to the Premises in the third quarter 2021 to begin constructing leasehold improvements. In accordance with ASC 842, the Company recorded a ROU asset and lease liability. The initial recognition of the ROU asset and lease liability was \$5.9 million. In the fourth quarter of 2021, the Company received an occupancy permit and relocated its operations to the new leased space.

The calculated amounts of the ROU assets and lease liabilities are impacted by the length of the lease term and the discount rate used to calculate the present value of the minimum lease payments. ASC 842 requires the use of the discount rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception. As of September 30, 2022, the weighted average discount rate for operating leases was 9% and the weighted average remaining lease term for operating lease term is 9.24 years.

The following table represents lease costs and other lease information (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease cost	\$ 227	\$ 733	\$ 678	\$ 1,898
Short-term lease cost	4	14	24	45
Sublease income	-	(246)	-	(740)
Total net lease cost	\$ 231	\$ 501	\$ 702	\$ 1,203
Cash paid within operating cash flows	\$ 232	\$ 624	\$ 886	\$ 1,794

Variable lease costs consist primarily of taxes, insurance, and common area or other maintenance costs for our leased facilities and equipment which are paid based on actual costs incurred.

Future minimum payments for operating leases with initial or remaining terms of one year or more as of September 30, 2022 were as follows (in thousands):

	<u>September 30, 2022</u>
2022	\$ 214
2023	877
2024	898
2025	919
2026	935
2027 and thereafter	4,986
Total lease payments	<u>\$ 8,829</u>
Less: Interest	(2,884)
Present value of lease liabilities	<u>\$ 5,945</u>

### 7. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Accrued salaries, bonus, and benefits	\$ 1,492	\$ 1,516
Accrued licenses and maintenance fees	484	484
Accrued warranties	166	242
Accrued taxes	269	177
Accrued investigational sites	92	123
Accrued lease deposit payable	5	124
Deferred contract obligation	738	-
Other	133	81
Total accrued liabilities	<u>3,379</u>	<u>2,747</u>
Less: Long term accrued liabilities	(168)	(219)
Total current accrued liabilities	<u>\$ 3,211</u>	<u>\$ 2,528</u>

Certain prior year amounts have been reclassified to conform to the 2022 presentation.

### 8. Debt and Credit Facilities

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted on March 27, 2020 in the United States. Among the provisions contained in the CARES Act was the creation of the Paycheck Protection Program that provides for Small Business Administration (“SBA”) Section 7(a) loans for qualified small businesses. In general, the loan could be forgiven as long as the funds were used for payroll related expenses as well as rent and utilities paid during the twenty-four-week period from the date of the loan and as long as certain headcount and salary/wage levels were maintained. On April 10, 2020, the Company was informed by its lender, Midwest BankCentre (the “Bank”), that the Bank received approval from the SBA to fund the Company’s request for a loan under the SBA’s Paycheck Protection Program (“PPP Loan”). Per the terms of the PPP Loan, the Company received total proceeds of approximately \$2.2 million from the Bank on April 20, 2020. In accordance with the loan forgiveness requirements of the CARES Act, the Company used the full proceeds from the PPP Loan primarily for payroll costs, rent and utilities. In March 2021, the Company applied for loan forgiveness and in June 2021 full loan forgiveness was granted by the SBA. The Company recognized a net gain from debt extinguishment of approximately \$2.2 million.

### 9. Convertible Preferred Stock and Stockholders’ Equity

The holders of common stock are entitled to one vote for each share held and to receive dividends when and as declared by the Board of Directors out of funds legally available for dividends, subject to the prior rights or preferences applicable to any preferred stock as may then be outstanding. The Company’s Series B Convertible Preferred Stock (the “Series B Preferred Stock”) is entitled to dividends equal to and in the same form as dividends actually paid on shares of common stock when, as and if such dividends are paid on shares of common stock. Until all shares of the Company’s Series A Convertible Preferred Stock (the “Series A Preferred Stock”) have been converted or redeemed, no dividends may be paid on the common stock or the Series B Preferred Stock without the express written consent of the holders of a majority of the outstanding shares of Series A Preferred Stock. In the event that dividends or other distributions of assets are made or paid by the Company to the holders of the common stock or the holders of shares of the Series B Preferred Stock, the holders of shares of the Series A Preferred Stock are entitled to participate in such dividend or distribution on an as-converted basis. No dividends have been declared or paid as of September 30, 2022, and the Company does not presently intend to pay any cash dividends in the foreseeable future.

#### Series B Convertible Preferred Stock

On August 7, 2019, the Company entered into a Securities Purchase Agreement with certain institutional and other accredited investors, whereby it, as part of a private placement, agreed to issue and sell to the investors 5,610,121 shares of the Company’s Series B Convertible Preferred Stock (the “Series B Preferred Stock”), \$0.001 par value per share which are convertible into shares of the Company’s common stock, at a price of \$2.05 per share. The Series B Preferred Stock, which is a common stock equivalent but non-voting and with a blocker on conversion if the holder would exceed a specified threshold of voting security ownership, is convertible into common stock on a one-for-one basis, subject to adjustment for events such as stock splits, combinations and the like as provided in the Purchase Agreement. The Series B Preferred Stock is reported in the stockholders’ equity section of the Company’s balance sheet.



### Series A Convertible Preferred Stock and Warrants

In September 2016, the Company issued (i) 24,000 shares of Series A Convertible Preferred Stock (the “Series A Preferred Stock”), par value \$0.001 per share, with a stated value of \$1,000 per share, which are convertible into shares of the Company’s common stock at an initial conversion rate of \$0.65 per share, subject to adjustment for events such as stock splits, combinations and the like as provided in the certificate of designations covering such Series A Preferred Stock, and (ii) (the SPA Warrants) to purchase an aggregate of 36,923,078 shares of common stock. The shares of Series A Preferred Stock are entitled to vote on an as-converted basis with the common stock, subject to specified beneficial ownership issuance limitations. The Series A Preferred Stock bear dividends at a rate of six percent (6%) per annum, which are cumulative and accrue daily from the date of issuance on the \$1,000 stated value. Such dividends will not be paid in cash except in connection with any liquidation, dissolution or winding up of the Company or any redemption of the Series A Preferred Stock. Each holder of convertible preferred shares has the right to require us to redeem such holder’s shares of Series A Preferred Stock upon the occurrence of specified events, which include certain business combinations, the sale of all or substantially all of the Company’s assets, or the sale of more than 50% of the outstanding shares of the Company’s common stock. In addition, the Company has the right to redeem the Series A Preferred Stock in the event of a defined change of control. The Series A Preferred Stock ranks senior to our common stock as to distributions and payments upon the liquidation, dissolution, and winding up of the Company. Since the Series A Preferred Stock are subject to conditions for redemption that are outside the Company’s control, the Series A Preferred Stock are presently reported in the mezzanine section of the balance sheet.

The SPA Warrants were modified on February 28, 2018 to allow for a reduction in the exercise price from \$0.70 per share to \$0.28 per share for a period between March 1, 2018 and March 5, 2018 and to modify certain beneficial ownership limitations and to eliminate certain redemption rights, resulting in, among other things, the exercise of a substantial number of the SPA Warrants for cash. The remaining unexercised 15,385 Warrants expired on September 29, 2021.

### 2021 CEO Performance Award Unit Grant

On February 23, 2021, the Company’s Board of Directors, upon recommendation of the Compensation Committee, approved the grant of the CEO Performance Award to the Company’s Chief Executive Officer. The CEO Performance award is a 10-year performance award of up to 13,000,000 shares, tied to the achievement of market capitalization milestones and subject to minimum service requirements.

As detailed in the table below, the CEO Performance Award consists of ten vesting tranches. The first market capitalization milestone is \$1.0 billion, and each of the remaining nine market capitalization milestones are in additional \$500 million increments, up to \$5.5 billion.

Tranche #	No. of Shares Subject to PSU	Market Capitalization Milestones <sup>(1)</sup>
1	1,000,000	\$ 1,000,000,000
2	1,500,000	\$ 1,500,000,000
3	1,500,000	\$ 2,000,000,000
4	2,000,000	\$ 2,500,000,000
5	1,000,000	\$ 3,000,000,000
6	1,000,000	\$ 3,500,000,000
7	1,000,000	\$ 4,000,000,000
8	2,000,000	\$ 4,500,000,000
9	1,000,000	\$ 5,000,000,000
10	1,000,000	\$ 5,500,000,000
<b>Total:</b>	<b>13,000,000</b>	

Each tranche represents a portion of the PSUs covering the number of shares outlined in the table above. Each tranche vests upon (i) satisfaction of the market capitalization milestones and (ii) continued employment as CEO of the Company from the grant date through December 31, 2030. Absent an earlier termination, the PSUs will expire on December 31, 2030. If our CEO ceases employment as CEO of the Company for any reason including death, disability, termination for cause or without cause (as defined in the award agreement), or if he voluntarily terminates after service as CEO for at least five years, the remaining service period will be waived and he will retain any PSUs that have vested through the date of termination.

The Company received Shareholder approval at its annual meeting on May 20, 2021 for shares to be issued under the award.

The market capitalization requirement is considered a market condition under FASB Accounting Standards Codification Topic 718 “Compensation – Stock Compensation” and is estimated on the grant date using Monte Carlo simulations. Recognition of stock-based compensation expense of all the tranches commenced on February 23, 2021, the date of grant, as the probability of meeting the ten market capitalization milestones is not considered in determining the timing of expense recognition. The expense will be recognized on an accelerated basis through 2030. Key assumptions for estimating the performance-based awards fair value at the date of grant included share price on grant date, volatility of the Company’s common stock price, risk free interest rate, and grant term.

Total stock-based compensation recorded as operating expense for the CEO Performance Award was \$5.3 million and \$4.3 million for the nine-month period ended September 30, 2022 and 2021, respectively. As of September 30, 2022 and 2021, the Company had approximately \$45.9 million and \$53.1 million, respectively, of total unrecognized stock-based compensation expense remaining under the CEO Performance Award assuming the grantee's continued employment as CEO of the Company, or in a similar capacity, through 2030. As of September 30, 2022, none of the performance milestones established by the 2021 CEO Incentive Program have been achieved, and no awards have been earned.

### 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 February 2022, the Compensation Committee of the Board of Directors adopted the 2022 Stock Incentive Plan (the "Plan") which was subsequently approved by the Company's shareholders. This plan replaced the 2012 Stock Incentive Plan which expired on May 19, 2022.

At September 30, 2022, the Company had 4,007,952 remaining shares of the Company's common stock to provide for current and future grants under its various equity plans.

At September 30, 2022, the total compensation cost related to options, stock appreciation rights, and non-vested stock granted to employees and non-employees under the Company's stock award plans but not yet recognized was approximately \$5.6 million, excluding compensation not yet recognized related to the CEO Performance Award discussed above. This cost will be amortized over a period of up to four years over the underlying estimated service periods and will be adjusted for subsequent changes in actual forfeitures and anticipated vesting periods.

A summary of the option and stock appreciation rights activity for the nine-month period ended September 30, 2022 is as follows:

	Number of Options/SARs	Range of Exercise Price	Weighted Average Exercise Price per Share
Outstanding, December 31, 2021	2,818,012	\$0.74 - \$9.87	\$ 4.10
Granted	766,500	\$2.09 - \$5.21	\$ 4.78
Exercised	(111,791)	\$0.74 - \$4.52	\$ 1.44
Forfeited	(233,588)	\$0.74 - \$7.70	\$ 5.03
Outstanding, September 30, 2022	<u>3,239,133</u>	<u>\$0.74 - \$9.87</u>	<u>\$ 4.29</u>

A summary of the restricted stock unit activity for the nine-month period ended September 30, 2022 is as follows:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value per Unit
Outstanding, December 31, 2021	1,164,723	\$ 3.57
Granted	154,742	\$ 7.68
Vested	(110,726)	\$ 2.27
Outstanding, September 30, 2022	<u>1,208,739</u>	<u>\$ 4.21</u>

### 10. Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including certain cash equivalents. Generally accepted accounting principles for fair value measurement established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3"). The three levels of the fair value hierarchy are described below:

Level 1: Values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Values are generated from model-based techniques that use significant assumptions not observable in the market.

The following table sets forth the Company's assets measured at fair value on a recurring basis by level within the fair value hierarchy. As required by the Fair Value Measurements and Disclosures topic of the Accounting Standards Codification, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

<i>(in thousands)</i>	<b>Fair Value Measurement Using</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets at September 30, 2022:</b>				
Cash invested in money market accounts	\$ 1,493	\$ —	\$ 1,493	\$ —
<b>Total assets at fair value</b>	<b>\$ 1,493</b>	<b>\$ —</b>	<b>\$ 1,493</b>	<b>\$ —</b>
<b>Assets at December 31, 2021:</b>				
Cash invested in money market accounts	\$ 1,406	\$ —	\$ 1,406	\$ —
<b>Total assets at fair value</b>	<b>\$ 1,406</b>	<b>\$ —</b>	<b>\$ 1,406</b>	<b>\$ —</b>

The Company did not have any financial liabilities valued at fair value on a recurring basis as of September 30, 2022 or December 31, 2021.

#### *Level 1*

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

#### *Level 2*

The Company's financial assets consist of restricted cash and cash equivalents invested in money market funds in the amount of \$1.5 million and \$1.4 million at September 30, 2022 and December 31, 2021, respectively. These assets are classified as Level 2, as described above, and total interest income recorded for these investments was less than \$0.2 million during the nine months ended September 30, 2022 and insignificant during the year ended December 31, 2021, respectively.

#### *Level 3*

The Company does not have any financial assets or liabilities classified as Level 3.

### **11. Product Warranty Provisions**

The Company's standard policy is to warrant all capital systems against defects in material or workmanship for one year following installation. The Company's estimate of costs to service the warranty obligations is based on historical experience and current product performance trends. A regular review of warranty obligations is performed to determine the adequacy of the reserve and adjustments are made to the estimated warranty liability as appropriate.

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

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Warranty accrual, beginning of the fiscal period	\$ 242	\$ 158
Accrual adjustment for product warranty	95	199
Payments made	(171)	(115)
<b>Warranty accrual, end of the fiscal period</b>	<b>\$ 166</b>	<b>\$ 242</b>

### **12. Commitments and Contingencies**

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

In April 2021, the Company entered into a letter of credit pursuant to the Lease agreement totaling approximately \$1.8 million to be delivered in four equal installments of which the first was delivered in April 2021, the second was delivered in July 2021, the third was delivered in October 2021, and the fourth was delivered in January 2022. The amount available under this letter of credit will automatically reduce by one fortieth at the end of each month during the lease term.

### **13. Subsequent Events**

None.

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

*The following discussion and analysis should be read in conjunction with our financial statements and notes thereto included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2021. 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 "Part II - Item 1A. Risk Factors" included in this Quarterly Report on Form 10-Q and in Part I, Item 1A, "Risk Factors," included in our Annual Report on Form 10-K for the year ended December 31, 2021. Forward-looking statements discuss matters that are not historical facts. Forward-looking statements include, but are not limited to, discussions regarding our operating strategy, sales and marketing strategy, regulatory strategy, industry, economic conditions, financial condition, liquidity, capital resources, results of operations, and the impact of the recent coronavirus ("COVID-19") pandemic and our response to it. Such statements include, but are not limited to, statements preceded by, followed by, or that otherwise include the words "believe", "expects", "anticipates", "intends", "estimates", "projects", "can", "could", "may", "would", or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not unduly rely on these forward-looking statements, which speak only as of the date on which they are made. They give our expectations regarding the future but are not guarantees. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.*

### Overview

Stereotaxis is a pioneer and global leader in surgical robotics for minimally invasive endovascular intervention. We design, manufacture and market robotic systems, instruments and information systems for the interventional laboratory. Our proprietary robotic technology, Robotic Magnetic Navigation, fundamentally transforms endovascular interventions using precise computer-controlled magnetic fields to directly control the tip of flexible interventional catheters or devices. Direct control of the tip of an interventional device, in contrast to all manual hand-held devices that are controlled from their handle, can improve the precision, stability, reach and safety of these devices during procedures.

Our primary clinical focus has been electrophysiology, specifically cardiac ablation procedures for the treatment of arrhythmias. Cardiac ablation has become a well-accepted therapy for arrhythmias and a multi-billion-dollar medical device market with expectations for substantial long-term growth. We have shared our aspiration and a product strategy to expand the clinical focus of our technology to several additional endovascular indications including coronary, neuro, and peripheral interventions.

There is substantial real-world evidence and clinical literature for Robotic Magnetic Navigation in electrophysiology. Hundreds of electrophysiologists at over one hundred hospitals globally have treated over 100,000 arrhythmia patients with our robotic technology. Clinical use of our technology has been documented in over 400 clinical publications. Robotic Magnetic Navigation is designed to enable physicians to complete more complex interventional procedures with greater success and safety by providing image-guided delivery of catheters through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied computer-controlled magnetic fields that govern the motion of the working tip of the catheter, resulting in improved navigation. The more flexible atraumatic design of catheters driven using magnetic fields may reduce the risk of patient harm and other adverse events. Performing the procedure from a control cockpit enables physicians to complete procedures in a safe location protected from x-ray exposure, with greater ergonomics, and improved efficiency. We believe these benefits can be applicable in other endovascular indications where navigation through complex vasculature is often challenging or unsuccessful and generates significant x-ray exposure.

Our primary products include the *Genesis RMN* System, the *Odyssey* Solution, and other related devices. We also offer to our customers the Stereotaxis Imaging Model S x-ray System and other accessory devices.

The *Genesis RMN* System is designed to enable physicians to complete more complex interventional procedures by providing image-guided delivery of catheters 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, resulting in improved navigation, efficient procedures, and reduced x-ray exposure.

The *Odyssey* Solution consolidates lab information onto one large integrated display, enabling physicians to view and control all the key information in the operating room. This is designed to improve lab layout and procedure efficiency. The system also features a remote viewing and recording capability called *Odyssey Cinema*, which is an innovative solution that delivers synchronized content for optimized workflow, advanced care, and improved productivity. This tool includes an archiving capability that allows clinicians to store and replay entire procedures or segments of procedures. This information can be accessed from locations throughout the hospital local area network and over the global Odyssey Network providing physicians with a tool for clinical collaboration, remote consultation, and training.

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

We have received regulatory clearances and registration approvals necessary for us to market the *Genesis RMN* System in the U.S. and Europe, and we are in the process of obtaining necessary registrations for extending our markets in other countries. Our prior generation robotic magnetic navigation system, the *Niobe* System, and the *Odyssey* Solution, *Cardiodrive*, and various disposable interventional devices have received regulatory clearance in the U.S., Europe, Canada, China, Japan and various other countries. We have received the regulatory clearance, licensing and/or CE Mark approvals that allow us to market the *Vdrive* and *Vdrive Duo* Systems with the *V-CAS*, *V-Loop* and *V-Sono* devices in the U.S., Canada and Europe. Stereotaxis Imaging Model S x-ray System is CE marked and cleared by the FDA.

We have strategic relationships with technology leaders in the global interventional market. Through these strategic relationships we provide compatibility between our robotic magnetic navigation system and digital imaging and 3D catheter location sensing technology, as well as disposable interventional devices. The maintenance of these strategic relationships, or the establishment of equivalent alternatives, is critical to our commercialization efforts. There are no guarantees that any existing strategic relationships will continue, and efforts are ongoing to ensure the availability of integrated systems and devices and/or equivalent alternatives. We cannot provide assurance as to the timeline of the ongoing availability of such compatible systems or our ability to obtain equivalent alternatives on competitive terms or at all.

### **COVID-19 Pandemic**

The impact of the COVID-19 pandemic has varied widely over time by individual geography. In 2021, resurgences of COVID-19 as well as hospital staffing shortages depressed procedure volumes at various times throughout the year. After such resurgences procedure volumes would generally stabilize or recover. Similarly, in 2022, procedure volumes continue to be challenged by periodic resurgences of COVID-19, ongoing hospital staffing issues and other factors.

We have experienced challenges and disruptions due to the pandemic such as worldwide supply chain disruptions, including shortages and inflationary pressures, and logistics delays which makes it difficult for us to source parts and ship our products. Our customers have also experienced similar supply chain issues as well as labor shortages, both of which have contributed to delayed hospital construction project timelines. To-date, we have been generally able to conduct normal business activities albeit in a more deliberate manner than prior to the pandemic, including taking action to increase inventory levels, but we cannot guarantee that they will not be impacted more severely in the future.

The ongoing impact that the pandemic will have on our business will likely continue to vary by individual geography based on the extent of the outbreak in each area, the timing of vaccine distribution, specific governmental restrictions and the availability of testing capabilities, personal protective equipment, and hospital facilities, as well as decisions by our vendors, suppliers, customers and, ultimately, patients in response to the pandemic, none of which we are able to currently and accurately predict. While we cannot reliably estimate the depth or length of the impact, we continue to anticipate significant, periodic disruptions to our procedures volumes, service activities and system placements in 2022. In addition, we would expect that capital system orders will continue to experience some delay.

Capital markets and worldwide economies continue to be significantly impacted by the COVID-19 pandemic, and the outlook for 2022 depends on future developments, including but not limited to: the length and severity of ongoing outbreaks (including further new variants beyond Delta and Omicron, which may be more contagious, more severe or less responsive to treatment or vaccines), the effectiveness of containment actions, and the timing of vaccinations and achievement of herd immunity. The impact on local and/or global economies is uncertain, including ongoing risk of recession. Such economic disruptions, including a recession, could have a material adverse effect on our long-term business as hospitals continue to monitor and adjust capital and overall spending or redirect such spending to treatments related directly to the pandemic. To date, our manufacturing operations and supply chains have been manageably impacted, but we cannot guarantee that such will not be impacted further in the future. If our manufacturing operations or supply chains are materially interrupted, it may not be possible for us to timely manufacture relevant products at required levels, or at all. A material reduction or interruption to any of our manufacturing processes could have a material adverse effect on our business, operating results, and financial condition. Further, the COVID-19 pandemic and local actions, such as “shelter-in-place” orders and restrictions on our ability to travel and access our customers or temporary closures of our facilities or the facilities of our suppliers and their contract manufacturers, could also significantly impact our sales and our ability to ship our products and supply our customers. Any of these events could negatively impact the number of procedures performed and the number of system placements and have a material adverse effect on our business, financial condition, results of operations, or cash flows.

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

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. We review our estimates and judgments on an ongoing basis. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We believe the following accounting policies are critical to the judgments and estimates we use in preparing our financial statements. For a complete listing of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2021.

### **Revenue Recognition**

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

In accordance with Accounting Standards Codification Topic 606 (“ASC 606”), “Revenue from Contracts with Customers,” we account for a contract with a customer when there is a legally enforceable contract between the Company and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. We record our revenue based on consideration specified in the contract with each customer, net of any taxes collected from customers that are remitted to government authorities.

For contracts containing multiple products and services the Company accounts for individual products and services as separate performance obligations if they are distinct, which is if a product or service is separately identifiable from other items in the bundled package, and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The Company recognizes revenues as the performance obligations are satisfied by transferring control of the product or service to a customer.

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

#### Systems:

Contracts related to the sale of systems typically contain separate obligations for the delivery of system(s), installation and an implied obligation to provide software enhancements if and when available for one year following installation. Revenue is recognized when the Company transfers control to the customer, which is generally at the point when acceptance occurs that indicates customer acknowledgment of delivery or installation, depending on the terms of the arrangement. Revenue from the implied obligation to deliver software enhancements if and when available is recognized ratably over the first year following installation of the system as the customer receives the right to software enhancements throughout the period and is included in Other Recurring Revenue. The Company’s system contracts do not provide a right of return. Systems are generally covered by a one-year assurance type warranty; warranty costs were \$0.1 million and \$0.2 million for the nine months ended September 30, 2022 and 2021, respectively.

#### Disposables:

Revenue from sales of disposable products is recognized when control is transferred to the customers, which generally occurs at the time of shipment, but can also occur at the time of delivery depending on the customer arrangement. Disposable products are covered by an assurance type warranty that provides for the return of defective products. Warranty costs were not material for the nine months ended September 30, 2022 and 2021.

#### Royalty:

The Company is entitled to royalty payments from Biosense Webster, payable quarterly based on net revenues from sales of the co-developed catheters.

#### Other Recurring Revenue:

Other recurring revenue includes revenue from product maintenance plans, other post warranty maintenance, and the implied obligation to provide software enhancements if and when available for a specified period, typically one year following installation of our systems. Revenue from services and software enhancements is deferred and amortized over the service or update period, which is typically one year. Revenue related to services performed on a time-and-materials basis is recognized when performed.

#### Sublease Revenue:

A portion of our former principal executive office was subleased to a third party through 2021. In accordance with Accounting Standards Update (ASU) 2016-02, “Leases” (Topic 842), the Company recorded sublease income as revenue.

The Company invoices its customers based on the billing schedules in its sales arrangements. Contract assets primarily represent the difference between the revenue that was recognized based on the relative selling price of the related performance obligations and the contractual billing terms in the arrangements. Customer deposits primarily relate to future system sales but can also include deposits on disposable sales. Deferred revenue is primarily related to service contracts, for which the service fees are billed up-front, generally quarterly or annually, and for amounts billed in advance for system contracts for which some performance obligations remain outstanding. For service contracts, the associated deferred revenue is generally recognized ratably over the service period. For system contracts, the associated deferred revenue is recognized when the remaining performance obligations are satisfied. See Note 2 for additional detail on deferred revenue. The Company did not have any impairment losses on its contract assets for the periods presented.

### ***Assets Recognized from the Costs to Obtain a Contract with a Customer***

The Company has determined that sales incentive programs for the Company's sales team meet the requirements to be capitalized as the Company expects to generate future economic benefits from the related revenue generating contracts after the initial capital sales transaction. The costs capitalized as contract acquisition costs included in prepaid expenses and other assets in the Company's balance sheets were \$0.2 million as of September 30, 2022 and December 31, 2021. The Company did not incur any impairment losses during any of the periods presented.

### ***Leases***

The Company accounts for leases in accordance with ASU No. 2016-02 "Leases" (Topic 842) and all subsequent ASUs that modified Topic 842. A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company determines if a contract contains a lease at inception. For contracts where the Company is the lessee, operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liability on the Company's balance sheet. The Company currently does not have any finance leases.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as the Company's leases generally do not provide an implicit rate. Lease terms may include options to extend or terminate when the Company is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

The Company also has lease arrangements with lease and non-lease components. The Company elected the practical expedient not to separate non-lease components from lease components for the Company's operating leases. Additionally, the Company applies the short-term lease measurement and recognition exemption in which right of use assets and lease liabilities are not recognized for leases less than twelve months.

As disclosed in Note 6, on March 1, 2021, the Company entered into an office lease agreement (the "Lease") with Globe Building Company (the "Landlord"), under which the Company is leasing executive office space and manufacturing facilities of approximately 43,100 square feet of rentable space located at 710 N. Tucker Boulevard, St. Louis, Missouri (the "Premises") that serves as the Company's new principal executive and administrative offices and manufacturing facility. Lease payments commenced on January 1, 2022 and the lease has a term of ten years, with two renewal options of five years each. The minimum annual rent under the terms of the Lease ranges from approximately \$0.8 million in 2022 to \$1.0 million in 2031.

The Company gained access to the Premises in the third quarter 2021 to begin constructing leasehold improvements. In accordance with ASC 842, the Company recorded a ROU asset and lease liability. The initial recognition of the ROU asset and lease liability was \$5.9 million. In the fourth quarter of 2021, the Company received an occupancy permit and relocated its operations to the new leased space.

### ***Cost of Contracts***

Costs of systems revenue include direct product costs, installation labor and other costs, estimated warranty costs, and initial training and product maintenance costs. These costs are recognized at the time of sale. Costs of disposable revenue include direct product costs and estimated warranty costs and are recognized at the time of sale. Cost of revenue from services and license fees are recognized when incurred. Cost of sublease revenue was recognized on a straight-line basis.

### ***Share-Based Compensation***

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

For time-based awards, the Company utilizes the Black-Scholes valuation model to determine the fair value of stock options and stock appreciation rights at the date of grant. The resulting compensation expense is recognized over the requisite service period, which is generally four years. Restricted shares and units granted to employees are valued at the fair market value at the date of grant. The Company amortizes the fair market value to expense over the service period. If the shares are subject to performance objectives, the resulting compensation expense is amortized over the anticipated vesting period and is subject to adjustment based on the actual achievement of objectives.

For market-based awards, stock-based compensation expense is recognized over the minimum service period regardless of whether or not the market target is probable of being achieved. The fair value of such awards is estimated on the grant date using Monte Carlo simulations.

Shares purchased by employees under the 2009 and 2022 Employee Stock Purchase Plans are considered to be non-compensatory.

## Results of Operations

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

**Revenue.** Revenue decreased from \$9.1 million for the three months ended September 30, 2021, to \$7.7 million for the three months ended September 30, 2022, a decrease of 16%. Revenue from the sales of systems decreased to \$2.4 million for the three months ended September 30, 2022, from \$3.5 million for the three months ended September 30, 2021, due to changes in product mix in the current year period. Revenue from sales of disposable interventional devices, service, and accessories was approximately \$5.3 million for the three months ended September 30, 2022 and 2021. The Company recognized \$0.2 million of sublease revenue for the three-month period ended September 30, 2021. The sublease ended December 31, 2021.

**Cost of Revenue.** Cost of revenue decreased from \$4.4 million for the three months ended September 30, 2021, to \$3.1 million for the three months ended September 30, 2022, a decrease of approximately 29%. As a percentage of our total revenue, overall gross margin increased to 60% for the three months ended September 30, 2022, from 52% for the three months ended September 30, 2021. Cost of revenue for systems sold decreased to \$2.0 million for the three months ended September 30, 2022, from \$3.4 million for the three months ended September 30, 2021, driven by changes in product mix in the current year period. Gross margin for systems was \$0.4 million for the three months ended September 30, 2022, compared to \$0.2 million for the three months ended September 30, 2021. Cost of revenue for disposables, service, and accessories increased to \$1.1 million for the three months ended September 30, 2022, from \$0.8 million for the three months ended September 30, 2021, driven by increased costs incurred under service contracts and changes in excess and obsolescence reserves. Gross margin for disposables, service, and accessories was 80% for the three months ended September 30, 2022 compared to 86% for the three months ended September 30, 2021. Cost of sublease revenue was \$0.2 million for the three months ended September 30, 2021. The sublease ended December 31, 2021.

**Research and Development Expenses.** Research and development expenses increased from \$2.5 million for the three months ended September 30, 2021, to \$2.8 million for the three months ended September 30, 2022, an increase of approximately 13%. This increase was primarily driven by project timing and measured hiring in the current year period.

**Sales and Marketing Expenses.** Sales and marketing expenses increased from \$2.9 million for the three months ended September 30, 2021, to \$3.1 million for the three months ended September 30, 2022, an increase of approximately 7% primarily due to higher headcount costs.

**General and Administrative Expenses.** General and administrative expenses include finance, information systems, legal, and general management. General and administrative expenses decreased from \$3.9 million for the three months ended September 30, 2021, to \$3.7 million for the three months ended September 30, 2022, a decrease of approximately 6%. This decrease was primarily driven by reduced professional service fees in the current year period.

**Interest Income (Expense).** Net interest income was approximately \$0.1 million for the three months ended September 30, 2022, compared to less than \$0.1 million for the three months ended September 30, 2021.

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

**Revenue.** Revenue decreased from \$26.8 million for the nine months ended September 30, 2021, to \$20.8 million for the nine months ended September 30, 2022, a decrease of approximately 22%. Revenue from the sales of systems decreased to \$4.6 million for the nine months ended September 30, 2022, from \$8.8 million for the nine months ended September 30, 2021, due to decreased system sales volumes and changes in product mix in the current year period. Revenue from sales of disposable interventional devices, service, and accessories decreased to \$16.2 million for the nine months ended September 30, 2022, from \$17.2 million for the nine months ended September 30, 2021, a decrease of approximately 6%, primarily driven by timing of service contract revenue, lower procedure volumes, and the strengthening of the US dollar during the current year period. Sublease revenue was \$0.7 million for the nine-month period ended September 30, 2021. The sublease ended December 31, 2021.

**Cost of Revenue.** Cost of revenue decreased from \$9.5 million for the nine months ended September 30, 2021, to \$6.7 million for the nine months ended September 30, 2022, a decrease of approximately 30%. As a percentage of our total revenue, overall gross margin increased to 68% for the nine months ended September 30, 2022, from 65% for the nine months ended September 30, 2021, primarily due to changes in product mix. Cost of revenue for systems sold decreased from \$6.2 million for the nine months ended September 30, 2021, to \$3.8 million for the nine months ended September 30, 2022, driven by decreased system sales volumes and changes in product mix in the current year period. Gross margin for systems decreased from \$2.6 million for the nine months ended September 30, 2021, to \$0.8 million for the nine months ended September 30, 2022. Cost of revenue for disposables, service, and accessories increased to \$2.9 million for the nine months ended September 30, 2022, from \$2.6 million for the nine months ended September 30, 2021, driven by higher expenses incurred under service contracts. Gross margin for disposables, service and accessories was 82% for the nine months ended September 30, 2022, compared to 85% for the nine months ended September 30, 2021. Cost of sublease revenue was \$0.7 million for the nine months ended September 30, 2021. The sublease ended December 31, 2021.

**Research and Development Expenses.** Research and development expenses increased from \$7.6 million for the nine months ended September 30, 2021, to \$8.2 million for the nine months ended September 30, 2022, an increase of approximately 8%. This increase was primarily due to higher project spending and measured hiring in the current year period.

**Sales and Marketing Expenses.** Sales and marketing expenses increased from \$8.9 million for the nine months ended September 30, 2021, to \$9.3 million for the nine months ended September 30, 2022, an increase of approximately 5%. This increase was primarily due to higher travel and compensation expenses in the current year period.



*General and Administrative Expenses.* General and administrative expenses include finance, information systems, legal, and general management. General and administrative expenses increased to \$11.0 million for the nine months ended September 30, 2022, from \$10.3 million for the nine months ended September 30, 2021, an increase of approximately 6%. This increase was primarily driven by higher stock-based compensation expense for the previously announced CEO Performance Award partially offset by lower professional service fees in the current year period.

*Interest Income (Expense).* Net interest income was approximately \$0.2 million for the nine months ended September 30, 2022, and net interest expense was less than \$0.1 million for the nine months ended September 30, 2021.

### **Liquidity and Capital Resources**

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents. We are continuously and critically reviewing our liquidity and anticipated capital requirements in light of the significant uncertainty created by the COVID-19 pandemic, the increasing recession risk, and macroeconomic headwinds.

At September 30, 2022 we had \$32.4 million of cash and cash equivalents, inclusive of restricted cash. We had working capital of \$30.5 million as of September 30, 2022, compared to \$38.1 million as of December 31, 2021.

The following table summarizes our cash flow by operating, investing and financing activities for the nine months ended September 30, 2022 and 2021 (in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
Cash flow used in operating activities	\$ (5,863)	\$ (1,727)
Cash flow used in investing activities	(2,009)	(201)
Cash flow provided by financing activities	159	536

*Net cash used in operating activities.* We used approximately \$5.9 million and \$1.7 million of cash for operating activities during the nine months ended September 30, 2022 and 2021, respectively. The increase in cash used in operating activities was driven by the increase in operating loss.

*Net cash used in investing activities.* We used approximately \$2.0 million of cash during the nine months ended September 30, 2022, for the purchase of equipment, construction and design costs associated with our new facility. We used approximately \$0.2 million of cash during the nine months ended September 30, 2021 for the purchase of equipment and design costs associated with our new facility.

*Net cash provided by financing activities.* We generated approximately \$0.2 million and \$0.5 million of cash from financing activities during the nine months ended September 30, 2022 and 2021, respectively. The cash generated in both periods was driven by the proceeds from issuance of stock, net of issuance costs.

### **Capital Resources**

As of September 30, 2022, the Company did not have any debt.

### **Paycheck Protection Program**

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted on March 27, 2020 in the United States. Among the provisions contained in the CARES Act was the creation of the Paycheck Protection Program that provides for Small Business Administration (“SBA”) Section 7(a) loans for qualified small businesses. In general, the loan could be forgiven as long as the funds were used for payroll related expenses as well as rent and utilities paid during the twenty-four-week period from the date of the loan and as long as certain headcount and salary/wage levels were maintained. On April 10, 2020, the Company was informed by its lender, Midwest BankCentre (the “Bank”), that the Bank received approval from the SBA to fund the Company’s request for a loan under the SBA’s Paycheck Protection Program (“PPP Loan”). Per the terms of the PPP Loan, the Company received total proceeds of approximately \$2.2 million from the Bank on April 20, 2020. In accordance with the loan forgiveness requirements of the CARES Act, the Company used the full proceeds from the PPP Loan primarily for payroll costs, rent and utilities. In March 2021, the Company applied for loan forgiveness and in June 2021, full loan forgiveness was granted by the SBA. The Company recognized a net gain from debt extinguishment of approximately \$2.2 million upon forgiveness.

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

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

### **ITEM 3. [RESERVED]**

None.

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

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

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

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 1A. RISK FACTORS

None.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. [RESERVED]

None.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

Number	Description
3.1	<a href="#">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.</a>
3.2	<a href="#">Certificate of Amendment to Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K (File No. 000-50884) filed on July 10, 2012.</a>
3.3	<a href="#">Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (File No. 001-36159) filed on September 30, 2016.</a>
3.4	<a href="#">Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (File No. 001-36159) filed on August 8, 2019.</a>
3.5	<a href="#">Restated Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2004.</a>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).</a>
32.1	<a href="#">Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).</a>
32.2	<a href="#">Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).</a>
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

**STEREOTAXIS, INC.  
SIGNATURES**

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

STEREOTAXIS, INC. (Registrant)

Date: November 14, 2022

By: /s/ David L. Fischel

**David L. Fischel**  
**Chief Executive Officer**

Date: November 14, 2022

By: /s/ Kimberly R. Peery

**Kimberly R. Peery**  
**Chief Financial Officer**

## Certification of Principal Executive Officer

I, David L. Fischel, certify that:

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

Date: November 14, 2022

*/s/ David L. Fischel*

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

## Certification of Principal Financial Officer

I, Kimberly R. Peery, certify that:

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

Date: November 14, 2022

/s/ Kimberly R. Peery  
Kimberly R. Peery  
Chief Financial Officer  
Stereotaxis, Inc.  
(Principal Financial Officer)

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Fischel, Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: November 14, 2022

*/s/ David L. Fischel*

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David L. Fischel  
Chief Executive Officer  
Stereotaxis, Inc.

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kimberly R. Peery, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: November 14, 2022

*/s/ Kimberly R. Peery*

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Kimberly R. Peery  
Chief Financial Officer  
Stereotaxis, Inc.

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