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

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2008.

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

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

Commission File Number: 000-50884

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**STEREOTAXIS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of Incorporation)

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

**4320 Forest Park Avenue**  
**Suite 100**  
**St. Louis, Missouri**  
(Address of principal executive offices)

**63108**  
(Zip Code)

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

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

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

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

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

The number of outstanding shares of the registrant's common stock on October 31, 2008 was 37,416,111

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## ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.  
BALANCE SHEETS

	September 30, 2008 (unaudited)	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 19,784,987	\$ 17,022,200
Short-term investments	—	6,634,178
Accounts receivable, net of allowance of \$303,855 and \$189,040 in 2008 and 2007, respectively	13,117,362	13,757,270
Current portion of long-term receivables	198,351	136,430
Inventories	8,359,590	9,964,460
Prepaid expenses and other current assets	5,007,969	3,421,202
Total current assets	46,468,259	50,935,740
Property and equipment, net	5,857,675	7,011,763
Intangible assets, net	1,311,111	1,411,111
Long-term receivables	306,030	272,859
Long-term investments	469,842	—
Other assets	662,672	844,321
Total assets	<u>\$ 55,075,589</u>	<u>\$ 60,475,794</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 17,957,046	\$ 972,222
Accounts payable	4,512,604	7,349,426
Accrued liabilities	7,556,442	11,913,418
Deferred contract revenue	13,572,095	8,774,958
Total current liabilities	43,598,187	29,010,024
Long-term debt, less current maturities	15,469,858	6,000,000
Long-term deferred contract revenue	1,099,341	942,573
Other liabilities	166,874	328,790
Stockholders' equity:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized at 2008 and 2007, none outstanding at 2008 and 2007	—	—
Common stock, par value of \$0.001; 100,000,000 shares authorized at 2008 and 2007, 37,428,311 and 37,132,529 shares issued at 2008 and 2007, respectively	37,428	37,133
Additional paid in capital	283,376,206	276,433,662
Treasury stock, 40,151 shares at 2008 and 2007	(205,999)	(205,999)
Accumulated deficit	(288,466,306)	(252,072,353)
Accumulated other comprehensive income	—	1,964
Total stockholders' equity (deficit)	<u>(5,258,671)</u>	<u>24,194,407</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 55,075,589</u>	<u>\$ 60,475,794</u>

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue:				
Systems	\$ 7,365,480	\$ 9,500,848	\$ 19,641,188	\$ 22,479,877
Disposables, service and accessories	3,186,169	2,546,906	8,597,503	6,564,071
Total revenue	<u>10,551,649</u>	<u>12,047,754</u>	<u>28,238,691</u>	<u>29,043,948</u>
Cost of revenue:				
Systems	3,098,477	3,541,756	8,822,745	8,024,046
Disposables, service and accessories	543,071	491,827	1,427,501	1,732,562
Inventory impairment	—	—	—	1,870,653
Total cost of revenue	<u>3,641,548</u>	<u>4,033,583</u>	<u>10,250,246</u>	<u>11,627,261</u>
Gross margin	6,910,101	8,014,171	17,988,445	17,416,687
Operating expenses:				
Research and development	4,380,466	6,690,032	13,861,339	19,475,675
Sales and marketing	7,012,264	7,667,013	23,297,003	20,733,407
General and administrative	4,719,779	4,320,208	15,458,115	14,112,033
Total operating expenses	<u>16,112,509</u>	<u>18,677,253</u>	<u>52,616,457</u>	<u>54,321,115</u>
Operating loss	(9,202,408)	(10,663,082)	(34,628,012)	(36,904,428)
Interest income	33,711	339,087	165,665	1,212,644
Interest expense	(904,428)	(74,267)	(1,931,606)	(216,499)
Net loss	<u>\$(10,073,125)</u>	<u>\$(10,398,262)</u>	<u>\$(36,393,953)</u>	<u>\$(35,908,283)</u>
Net loss per common share:				
Basic and diluted	<u>\$ (0.28)</u>	<u>\$ (0.29)</u>	<u>\$ (1.00)</u>	<u>\$ (1.01)</u>
Weighted average shares used in computing net loss per common share:				
Basic and diluted	<u>36,612,877</u>	<u>36,256,089</u>	<u>36,541,593</u>	<u>35,612,871</u>

See accompanying notes.

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

	<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Net loss	\$(36,393,953)	\$(35,908,283)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	1,690,814	1,194,475
Amortization (accretion)	81,898	(92,938)
Amortization of warrants	668,704	—
Share-based compensation	4,309,466	4,182,046
Loss on asset disposal	4,188	8,010
Impairment charge	31,598	1,870,653
Non-cash expense net of royalties	1,497,765	—
Changes in operating assets and liabilities:		
Accounts receivable	76,022	3,073,118
Other receivables	(95,092)	(343,645)
Inventories	1,604,870	(2,365,078)
Prepaid expenses and other current assets	(524,427)	(421,303)
Other assets	181,649	(103)
Accounts payable	(270,822)	561,384
Accrued liabilities	(2,888,122)	1,310,879
Deferred contract revenue	4,953,905	479,146
Other	(161,916)	397,121
Net cash used in operating activities	(25,233,453)	(26,054,518)
<b>Cash flows from investing activities</b>		
Purchase of equipment	(540,914)	(4,136,666)
Sale or disposal of equipment	—	100,640
Proceeds from the maturity/sale of available-for-sale investments	6,150,000	28,500,000
Purchase of available-for-sale investments	—	(8,827,764)
Net cash provided by investing activities	5,609,086	15,636,210
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt	24,000,000	2,000,000
Payments under long-term debt	(2,515,176)	(1,750,000)
Proceeds from issuance of stock, net of issuance costs	902,330	21,390,733
Net cash provided by financing activities	22,387,154	21,640,733
Net increase in cash and cash equivalents	2,762,787	11,222,425
Cash and cash equivalents at beginning of period	17,022,200	15,210,493
Cash and cash equivalents at end of period	<u>\$ 19,784,987</u>	<u>\$ 26,432,918</u>

See accompanying notes.

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

**Basis of Presentation**

The accompanying unaudited financial statements of Stereotaxis, Inc. (the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, they include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Operating results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008 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 as filed with the Securities and Exchange Commission on March 17, 2008 for the year ended December 31, 2007.

**Recently Adopted Accounting Pronouncements**

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). In February 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. The Company has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only. SFAS 157 applies to those previously issued pronouncements that prescribe fair value as the relevant measure of value, except SFAS 123(R) and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. The adoption of SFAS 157 did not have a material impact on the Company’s financial condition, results of operations or cash flows. SFAS 157 provides a single definition of fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (“FSP 157-3”) that clarifies the application of SFAS 157 in a market that is not active. FSP 157-3 is effective upon issuance, and applies to prior periods for which the financial statements have not been issued. FSP 157-3 is applicable to the valuation of an auction-rate security held by the Company for which there was no active market as of September 30, 2008. The adoption of FSP 157-3 during the three month period ending September 30, 2008 did not have a material impact on the Company’s consolidated financial condition, results of operations or cash flows. See “Investments” below for a discussion of the valuation of the security.

Effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Adoption of SFAS 159 did not have an impact on the Company’s financial position, results of operations, or cash flows as the Company elected not to use the fair value measurement option on any additional financial instruments or other applicable items.

Effective January 1, 2008, the Company adopted EITF No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (“EITF 07-3”). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. The adoption did not have an impact on the Company’s financial position, results of operations or cash flows.

## Accounting Standards Issued and Not Yet Adopted

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (“FSP 142-3”), that amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (“SFAS 142”). FSP 142-3 requires a consistent approach between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of an asset under SFAS 141 (R), *Business Combinations*. The FSP also requires enhanced disclosures when an intangible asset’s expected future cash flows are affected by an entity’s intent and/or ability to renew or extend the arrangement. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and is applied prospectively. Early adoption is prohibited. The Company does not expect the adoption of FSP 142-3 to have a material impact on its financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment awards that entitle their holders to receive non-forfeitable dividends or dividend equivalents before vesting should be considered participating securities and need to be included in the earnings allocation in computing EPS under the “two-class method”. The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 (January 1, 2009 for the Company) with all prior period EPS data being adjusted retrospectively. The Company is currently evaluating the effect FSP EITF 03-6-1 will have on its calculation of EPS.

## Revenue and Costs of Revenue

For arrangements with multiple deliverables, the Company allocates the total revenue to each deliverable based on the provisions of Staff Accounting Bulletin 104, *Revenue Recognition* (“SAB 104”), and Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (“EITF 00-21”), and recognizes revenue for each separate element as the criteria are met. In the second quarter of 2007, the Company determined that installation met the criteria under SAB 104 and EITF 00-21 for recognition as a separate element or unit of accounting. Revenue for NIOBE system sales is recognized for the portion of sales price due upon delivery, provided that delivery has occurred, title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. The greater of the fair market value or the amount of the sales price due upon installation is recognized as revenue when the standard installation process is complete. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since such arrangements do not include an installation element or right of return privileges. If uncertainties exist regarding collectability, the Company recognizes revenue when those uncertainties are resolved. The Company may deliver systems to a non-hospital site at the customer’s request. The Company evaluates whether delivery has occurred considering the guidance under SAB 104 with respect to “bill and hold”. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multi-element arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. The Company recognizes revenue from disposable device sales or accessories upon shipment and establishes an appropriate reserve for returns. The Company recognizes amounts earned on the shipment of product to customers as revenue and recognizes costs incurred on the shipment of product to customers as cost of revenue.

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

## Net Loss Per Common Share

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

The Company has deducted unearned restricted shares from the calculation of shares used in computing net loss per share, basic and diluted. The Company has excluded all outstanding options, stock appreciation rights and warrants from the calculation of diluted loss per common share because all such securities are anti-dilutive for all periods presented. The Company deducted a weighted average of 792,961 and 739,086 unearned restricted shares from the calculation of net loss per common share for the three and nine months ended September 30, 2008, respectively. As of September 30, 2008, the Company had 4,555,133 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$7.58 per share and 572,246 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$7.70 per share.

## Stock-Based Compensation

The Company accounts for its grants of stock options, stock appreciation rights and restricted shares and for its employee stock purchase plan in accordance with the provisions of FASB Statement No. 123(R), *Share-Based Payment* (“SFAS 123(R)”), using the modified prospective transition method. SFAS 123(R) requires the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation vests.

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

Stock options and stock appreciation rights issued to certain non-employees, are recorded at their fair value as determined in accordance with SFAS 123(R) and EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services*, and recognized over the service period. Deferred compensation for options granted to such non-employees is remeasured on a quarterly basis through the vesting or forfeiture date.

At September 30, 2008, the total compensation cost related to options, stock appreciation rights and non-vested stock granted to employees under the Company's equity incentive plans that has not yet been recognized was approximately \$10.7 million, net of estimated forfeitures of approximately \$1.4 million. This cost will be amortized on a straight-line basis over the underlying estimated service periods, generally four years, and may be adjusted for subsequent changes in estimated forfeitures and anticipated vesting periods.

### 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 that are described in both the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and the Company's Proxy Statement on Schedule 14A filed with the SEC on April 17, 2008. At September 30, 2008, the Board of Directors has reserved a total of 5,618,370 shares of the Company's common stock to provide for current and future grants under its various equity plans.

A summary of the option and stock appreciation rights activity for the nine months ended September 30, 2008 is as follows:

	<u>Number of Options/SARs</u>	<u>Range of Exercise Price</u>	<u>Weighted Average Exercise Price per Share</u>
Outstanding, December 31, 2007	3,324,509	\$0.25 - \$14.84	\$ 8.72
Granted	1,604,765	\$4.00 - \$ 7.03	\$ 5.97
Exercised	(46,457)	\$0.78 - \$ 9.19	\$ 6.96
Forfeited	(327,684)	\$6.77 - \$13.28	\$ 11.30
Outstanding, September 30, 2008	<u>4,555,133</u>	<u>\$0.25 - \$14.84</u>	<u>\$ 7.58</u>

A summary of the restricted share grant activity for the nine months ended September 30, 2008 is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value per Share</u>
Outstanding, December 31, 2007	721,415	\$ 10.60
Granted	330,646	\$ 5.25
Vested	(60,118)	\$ 10.57
Forfeited	(169,061)	\$ 11.13
Outstanding, September 30, 2008	<u>822,882</u>	<u>\$ 8.34</u>



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A summary of the restricted stock outstanding as of September 30, 2008 is as follows:

	<u>Number of Shares</u>
Time based restricted shares	388,203
Performance based restricted shares	434,679
Outstanding, September 30, 2008	<u>822,882</u>

### Comprehensive Loss

Comprehensive loss generally represents all changes in stockholders' equity except those resulting from investments by stockholders, and included the Company's unrealized income (loss) on marketable securities. Comprehensive loss for the three months ended September 30, 2008 and 2007 was \$(10,073,125) and \$(10,399,315), respectively. Comprehensive loss for the nine months ended September 30, 2008 and 2007 was \$(36,395,917) and \$(35,911,068), respectively. Comprehensive loss for the nine months ended September 30, 2007 included unrealized loss on available-for-sale investments of \$(2,785). Accumulated other comprehensive income (loss) at September 30, 2008 and 2007 was not material.

### Investments

Investments consist of the following available-for-sale securities at fair value:

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Short-term investments		
Commercial paper	\$ —	\$6,133,863
Auction rate security	—	500,315
Long-term investments		
Auction rate security	469,842	—
Total investments	<u>\$ 469,842</u>	<u>\$6,634,178</u>

In accordance with SFAS 157, the following table represents the Company's fair value hierarchy for its financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of September 30, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market (1)	\$18,175,702	\$ —	\$ —	\$18,175,702
Auction rate securities	—	—	469,842	469,842
Total	<u>\$18,175,702</u>	<u>\$ —</u>	<u>\$469,842</u>	<u>\$18,645,544</u>

(1) Included in cash equivalents

At September 30, 2008, the Company had invested \$500,000 in a taxable auction rate security ("ARS"). The ARS held by the Company is a private placement security with a long-term stated maturity for which the interest rate is reset through a Dutch auction every 28 days. The Company's ARS was issued by South Carolina Student Loan Corporation and currently carries an AA/Aaa rating. The ARS has not experienced any payment defaults and is insured by AMBAC. Until early 2008, the auctions had provided a liquid market for these securities as investors could readily sell their investments at auction.

Historically, the fair value of ARS investments has generally approximated par value due to the frequent resets through the auction process. With the liquidity issues experienced in global credit and capital markets, the Company has been unable to sell its ARS at auction during 2008, as the amount of securities submitted for sale exceeded the amount of purchase orders. Accordingly, the Company reviews the estimated fair value of its investment in the ARS as of each quarter end utilizing a discounted cash flow model using estimates for interest rates, timing and amount of cash flows and expected holding periods of the ARS. Based on this assessment of fair value, in March 2008, the Company determined there was a decline in the fair value of its ARS investments of approximately \$32,000 which was deemed to be an "other-than-temporary" impairment charge in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and recorded a realized loss in the statement of operations. At September 30, 2008 the Company classified its ARS investment balance as a non-current investment on its balance sheet. As discussed above under "Recently Adopted Accounting Pronouncements", the adoption of FSP 157-3 did not have a material impact on the Company's valuation of the ARS.

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If uncertainties in the credit and capital markets continue, these markets deteriorate further or there are any ratings downgrades on the ARS we own, the Company may be required to recognize an additional impairment. In addition, these securities may not provide the necessary liquidity as it could take until the final maturity of the underlying note (June 2034) to realize the investment's recorded value. The Company intends to liquidate these securities at par value at the earliest possible opportunity.

### Inventory

Inventory consists of the following:

	September 30, 2008	December 31, 2007
Raw materials	\$ 1,786,870	\$2,394,846
Work in process	201,864	214,996
Finished goods	6,970,182	7,949,723
Reserve for obsolescence	(599,326)	(595,105)
Total inventory	<u>\$ 8,359,590</u>	<u>\$9,964,460</u>

### Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of the following:

	September 30, 2008	December 31, 2007
Prepaid expenses	\$ 1,458,060	\$1,519,211
Deferred cost of revenue	1,895,497	1,176,109
Other assets	2,317,084	1,570,203
	5,670,641	4,265,523
Less: Long-term other assets	(662,672)	(844,321)
Total prepaid expenses and other current assets	<u>\$ 5,007,969</u>	<u>\$3,421,202</u>

### Property and Equipment

Property and equipment consist of the following:

	September 30, 2008	December 31, 2007
Equipment	\$ 9,785,448	\$ 9,637,232
Equipment held for lease	544,932	303,412
Leasehold improvements	1,517,095	1,506,576
	11,847,475	11,447,220
Less: Accumulated depreciation	(5,989,800)	(4,435,457)
Net property and equipment	<u>\$ 5,857,675</u>	<u>\$ 7,011,763</u>

### Accrued Liabilities

Accrued liabilities consist of the following:

	September 30, 2008	December 31, 2007
Accrued salaries, bonus, and benefits	\$ 4,327,367	\$ 3,531,582
Accrued research and development	422,590	4,456,049
Accrued legal and other professional fees	566,798	824,448
Other	2,239,687	3,101,339
Total accrued liabilities	<u>\$ 7,556,442</u>	<u>\$11,913,418</u>

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### Deferred Revenue

Deferred revenue consists of the following:

	September 30, 2008	December 31, 2007
Niobe and Odyssey systems shipped, revenue deferred	\$ 5,685,863	\$3,146,290
Customer deposits	4,208,113	1,985,150
Deferred service and license fees	4,777,460	4,586,091
	14,671,436	9,717,531
Less: Long-term deferred revenue	(1,099,341)	(942,573)
Total deferred contract revenue	<u>\$13,572,095</u>	<u>\$8,774,958</u>

### Credit Facilities

In February 2008, the Company entered into a Note and Warrant Purchase Agreement with two of its stockholders, pursuant to which those stockholders agreed to loan the Company up to an aggregate of \$20 million. These funds can be drawn at the Company's election, are unsecured and subordinated to any bank debt, and are due at a maturity date in February 2009. The stockholders also agreed to guarantee advances made to the Company pursuant to the credit agreement with the Company's primary lending bank. The financing commitment from the stockholders is subject to a 90 day extension, solely at the Company's option, providing for an extended maturity date of May 2009. Warrants to purchase 572,246 shares of the Company's common stock at an exercise price of \$6.99 were issued to the stockholders in exchange for the financing commitment. The warrants were exercisable immediately upon grant and expire five years from the date of grant. If the Company extends the financing commitment period or the maturity date, it would be required to issue five-year warrants to purchase an additional 143,062 shares of common stock at the same exercise price. The Company recorded the fair value of the warrants in the amount of \$1.7 million to be amortized to interest expense over the one year commitment period through February 2009. The unamortized balance as of September 30, 2008 was approximately \$0.6 million.

In conjunction with this transaction, the Company and its primary lending bank amended the revolving line of credit by increasing the line to \$30 million subject to a borrowing base of qualifying accounts receivable and inventory, with up to \$10 million available under the line supported by these guarantees. Under the revised facility the Company is required to maintain a minimum "tangible net worth" as defined in the agreement. As of September 30, 2008, the Company had \$13.2 million outstanding under the revolving line of credit and had an unused line of approximately \$16.8 million with current borrowing capacity of \$20.4 million, including amounts already drawn. As such, the Company had the ability to borrow an additional \$4.5 million under the revolving line of credit at September 30, 2008. As of September 30, 2008, the Company was in compliance with all covenants of the bank loan agreement.

As of September 30, 2008 the Company has \$6.0 million remaining on its stockholder credit facility described above.

### Debt

Debt outstanding consists of the following:

	September 30, 2008	December 31, 2007
Revolving credit agreement, due March 2009	\$ 13,234,824	\$5,000,000
November 2005 term note, due November 2008	55,555	305,555
June 2007 term note, due June 2010	1,166,667	1,666,667
Biosense Webster Advance	14,969,858	—
Stockholder Note	4,000,000	—
Total debt	33,426,904	6,972,222
Less current maturities	(17,957,046)	(972,222)
Total long term debt	<u>\$ 15,469,858</u>	<u>\$6,000,000</u>

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

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

In July 2008, the Company and Biosense Webster, Inc. entered into an amendment to their existing agreements. Pursuant to the amendment, Biosense Webster agreed to pay to the Company \$10.0 million as an advance on revenue share amounts that were owed at the time the amendment was executed or may be owed in the future by Biosense Webster to the Company pursuant to the revenue share provisions of the existing agreement. The Company and Biosense Webster also agreed that an aggregate of up to \$8.0 million of certain agreed upon research and development expenses that were owed at the time the amendment was executed or may be owed in the future by the Company to Biosense Webster pursuant to the existing agreement will be deferred and will be due, together with any unrecouped portion of the \$10.0 million revenue share advance, on the Final Payment Date (as defined below). Interest on the outstanding and unrecouped amounts of the revenue share advance and deferred research and development expenses will accrue at an interest rate of the prime rate plus 0.75%. Outstanding revenue share advances and deferred research and development expenses and accrued interest thereon will be recouped by Biosense Webster from time to time by deductions from revenue share amounts otherwise owed to the Company from Biosense Webster pursuant to the existing agreement. The Company has the right to prepay any amounts due pursuant to the Amendment at any time without penalty. As of September 30, 2008, approximately \$17.0 million had been advanced by Biosense Webster to the Company pursuant to the amendment. As of September 30, 2008, \$2.1 million of revenue share advances had been used to reduce the advances and the remaining approximately \$15.0 million of amounts owed to Biosense Webster has been classified as long term debt in the accompanying balance sheet.

All funds owed by the Company to Biosense Webster must be repaid on the sooner of December 31, 2011 or the date of an Accelerating Recoupment Event as defined below (the "Final Payment Date"). Commencing on May 15, 2010 the Company is required to make quarterly payments (the "Supplemental Payments") to Biosense Webster equal to the difference between the aggregate revenue share payments recouped by Biosense Webster from the Company (other than revenue share amounts attributable to Biosense Webster's sales of irrigated catheters) in such quarter and \$1 million, until the earlier of (1) the date all funds owed by the Company to Biosense Webster pursuant to the Amendment are fully repaid or (2) the Final Payment Date. An "Accelerating Recoupment Event" means any of the following: (i) the closing of any equity-based registered public financing transaction or in the event of convertible debt, the conversion of such debt into equity which raises at least \$50 million for the Company; (ii) the failure of the Company to make any Supplemental Payment; or (iii) a change of control of the Company (as defined in the amendment).

### **Stockholders' Equity**

In March 2007, the Company completed an offering of 1,919,000 shares of its common stock at \$10.50 per share. In conjunction with this transaction, the Company received approximately \$20.1 million in net proceeds after deducting offering expenses.

### **Product Warranty Provisions**

The Company's standard policy is to warrant all NIOBE® and ODYSSEY™ 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:

	<b>September 30, 2008</b>
Warranty accrual at December 31, 2007	\$ 234,949
Warranty expense incurred	318,562
Payments made	<u>(162,461)</u>
Warranty accrual at September 30, 2008	<u>\$ 391,050</u>

## **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.

## **Subsequent Events**

In October 2008, the Company received an offer from one of its investment advisors to repurchase at par value the ARS described above originally purchased for \$500,000. The Company has agreed to this repurchase, which will likely result in a recovery of the \$32,000 impairment charge described above.

In November 2008, the company received a commitment from the two stockholders who had issued the credit facility described above to extend the provisions of that agreement initially to March 31, 2010 on the same terms and conditions as the current agreement.

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

*The following discussion and analysis should be read in conjunction with our financial statements and notes thereto included in this report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2007. Operating results are not necessarily indicative of results that may occur in future periods.*

*This report includes various forward-looking statements that are subject to risks and uncertainties, many of which are beyond our control. Our actual results could differ materially from those anticipated in these forward looking statements as a result of various factors, including those set forth in Item 1A "Risk Factors" and in our Annual Report on Form 10-K for the year ended December 31, 2007. Forward-looking statements discuss matters that are not historical facts and include, but are not limited to, discussions regarding our operating strategy, sales and marketing strategy, regulatory strategy, industry, economic conditions, financial condition, liquidity and capital resources and results of operations. Such statements include, but are not limited to, statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "estimates," "projects," "can," "could," "may," "will," "would," or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not unduly rely on these forward-looking statements, which speak only as of the date on which they were made. They give our expectations regarding the future, but are not guarantees. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.*

## **Overview**

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

## **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. We review our estimates and judgments on an on-going basis. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the

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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, 2007.

### **Revenue Recognition**

For arrangements with multiple deliverables, we allocate the total revenue to each deliverable based on the provisions of Staff Accounting Bulletin 104 (“SAB 104”) *Revenue Recognition* and EITF Issue 00-21 *Revenue Arrangements with Multiple Deliverables* (“EITF 00-21”), and recognize revenue for each separate element as the criteria are met. Under EITF 00-21, we are required to continually evaluate whether we have separate units of accounting for deliverables within certain contractual arrangements we have made with customers, specifically as it relates to the sale and installation of our magnetic navigation system. Prior to the quarter ended June 30, 2007, we had met the first criterion for separation of multiple elements under EITF 00-21, which was that the NIOBE system has stand-alone value but had not yet accumulated sufficient evidence to support the determination of fair value on the undelivered installation element. By the second quarter of 2007, we had accumulated sufficient experience to conclude that installation had been and could be performed by several independent vendors such that fair value could be determined. As such, we determined in the second quarter of 2007 that installation met the criteria under SAB 104 and EITF 00-21 for recognition as a separate element or unit of accounting and began to recognize revenue on the delivery and installation of the NIOBE system as two separate elements.

Under our revenue recognition policy, revenue for system sales is recognized for the portion of sales price due upon delivery, provided delivery has occurred, title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. The greater of fair market value or the amount of the sales price due upon installation is recognized as revenue when the standard installation process is complete. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since such arrangements do not include an installation element or right of return privileges. If uncertainties exist regarding collectability, we recognize revenue when those uncertainties are resolved. The Company may deliver systems to a non-hospital site at the customer’s request. The Company evaluates whether delivery has occurred considering the guidance under SAB 104 with respect to “bill and hold”. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multi-element arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and an appropriate reserve for returns is established. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimus affect on revenue recognized in the period. The Company believes that the estimate is not likely to change significantly in the future.

### **Results of Operations**

#### ***Comparison of the Three Months Ended September 30, 2008 and 2007***

*Revenue.* Revenue decreased from \$12.0 million for the three months ended September 30, 2007 to \$10.6 million for the three months ended September 30, 2008, a decrease of approximately 12%. Revenue from the sale of systems decreased from \$9.5 million to \$7.4 million, a decrease of approximately 22% because of a decrease in the number of NIOBE systems recognized as revenue from nine to six. In addition, we delivered four ODYSSEY systems during the 2008 period. Revenue from sales of disposable interventional devices, service and accessories increased to \$3.2 million for the three months ended September 30, 2008 from \$2.5 million for the three months ended September 30, 2007, an increase of approximately 25%. This increase was principally attributable to the increased base of installed systems.

Purchase orders and other commitments for our magnetic navigation system and integrated cath lab display were approximately \$75 million at September 30, 2008. We do not include orders for disposables, service or other accessories in the backlog data. Backlog includes amounts withheld at the time of revenue recognition which will generally be included in systems revenue in the future when the related obligations are completed. There can be no assurance that we will recognize revenue in any particular period or at all because some of our purchase orders and other commitments are subject to contingencies that are outside our control. In addition, these orders and commitments may be revised, modified or cancelled, either by their express terms, as a result of negotiations, or by project changes or delays.

*Cost of Revenue.* Cost of revenue decreased from \$4.0 million for the three months ended September 30, 2007 to \$3.6 million for the three months ended September 30, 2008, a decrease of approximately 10%. Cost of revenue for systems sold decreased from \$3.5 million for the three months ended September 30, 2007 to \$3.1 million for the three months ended September 30, 2008, a decrease of approximately 13% primarily due to the decrease in the number of NIOBE systems sold offset by the sale of ODYSSEY systems in 2008.

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*Research and Development Expenses.* Research and development expenses decreased from \$6.7 million for the three months ended September 30, 2007 to \$4.4 million for the three months ended September 30, 2008, a decrease of approximately 35%. The decrease was due principally to a decrease in development costs related to new product introductions.

*Sales and Marketing Expenses.* Sales and marketing expenses decreased from \$7.7 million for the three months ended September 30, 2007 to \$7.0 million for the three months ended September 30, 2008, a decrease of approximately 9%. The decrease related primarily to the timing of certain marketing programs.

*General and Administrative Expenses.* General and administrative expenses include our regulatory, training, clinical and general management expenses. General and administrative expenses increased to \$4.7 million from \$4.3 million for the three months ended September 30, 2008 and 2007, respectively, an increase of approximately 9%. The increase was due primarily to increased costs associated with regulatory activities related to our partnered devices. In addition, we recorded a foreign exchange loss of \$0.2 million during the three months ended September 30, 2008 compared with a foreign exchange gain of \$0.3 million during the three months ended September 30, 2007.

*Interest Income.* Interest income decreased to \$34,000 for the three months ended September 30, 2008 from \$339,000 for the three months ended September 30, 2007, a decrease of approximately 90% due principally to lower invested balances.

*Interest Expense.* Interest expense increased to \$904,000 for the three months ended September 30, 2008 from \$74,000 for the three months ended September 30, 2007, primarily due to the amortization of warrants issued during 2008 related to the affiliate line of credit and higher average outstanding balances due on our loans during 2008.

### **Comparison of the Nine Months Ended September 30, 2008 and 2007**

*Revenue.* Revenue decreased from \$29.0 million for the nine months ended September 30, 2007 to \$28.2 million for the nine months ended September 30, 2008, a decrease of approximately 3%. Revenue from the sale of systems decreased from \$22.5 million to \$19.6 million, a decrease of approximately 13%. The number of units recognized to revenue decreased from 20 NIOBE systems during the 2007 reporting period to 18 NIOBE systems and 10 ODYSSEY systems during the 2008 reporting period. The NIOBE units recognized in the 2007 period carried a somewhat higher average selling price, also contributing to the year over year decrease in revenue. Revenue from sales of disposable interventional devices, service and accessories increased to \$8.6 million for the nine months ended September 30, 2008 from \$6.6 million for the nine months ended September 30, 2007, an increase of approximately 30%. This increase was principally attributable to the increased base of installed systems.

*Cost of Revenue.* Cost of revenue decreased from \$11.6 million for the nine months ended September 30, 2007 to \$10.3 million for the nine months ended September 30, 2008, a decrease of approximately 12%. Cost of sales for the 2007 period included a \$1.9 million adjustment to the carrying value of the first generation NIOBE systems remaining in inventory. Cost of revenue for systems sold increased from \$8.0 million for the nine months ended September 30, 2007 to \$8.8 million for the nine months ended September 30, 2008 primarily due to an increase in the average per-unit installation and production cost of the NIOBE systems sold and the recognition of costs associated with ODYSSEY systems sold in the 2008 period, whereas there were no ODYSSEY system sales recorded in the 2007 period.

*Research and Development Expenses.* Research and development expenses decreased from \$19.5 million for the nine months ended September 30, 2007 to \$13.9 million for the nine months ended September 30, 2008, a decrease of approximately 29%. The decrease was due principally to a decrease in development costs related to new product introductions.

*Sales and Marketing Expenses.* Sales and marketing expenses increased to \$23.3 million for the nine months ended September 30, 2008 from \$20.7 million for the nine months ended September 30, 2007, an increase of approximately 12%. The increase related primarily to increased compensation and related expenses associated with expanded sales operations and expanded marketing programs in the first half of 2008.

*General and Administrative Expenses.* General and administrative expenses include our regulatory, training, clinical and general management expenses. General and administrative expenses increased to \$15.5 million from \$14.1 million for the nine months ended September 30, 2008 and 2007, respectively, an increase of approximately 10%. The increase was due primarily to increased costs associated with regulatory activities related to our partnered devices as well as increased

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compensation and related costs related to the expansion of our training programs in the first half of the year. In addition, we recorded a foreign exchange loss of \$0.2 million during the nine months ended September 30, 2008 compared with a foreign exchange gain of \$0.5 million during the nine months ended September 30, 2007.

*Interest Income.* Interest income decreased to \$166,000 for the nine months ended September 30, 2008 from \$1.2 million for the nine months ended September 30, 2007, a decrease of approximately 86% due principally to lower invested balances.

*Interest Expense.* Interest expense increased to \$1.9 million for the nine months ended September 30, 2008 from \$216,000 for the nine months ended September 30, 2007, primarily due to the amortization of warrants issued during 2008 related to the affiliate line of credit and higher average outstanding balances due on our loans during the first nine months of 2008.

### **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, as well as investments. In addition to our cash and cash equivalent balances, we maintained \$6.6 million of short-term investments at December 31, 2007, principally in commercial paper. At September 30, 2008, we had working capital of approximately \$2.9 million, compared to \$21.9 million at December 31, 2007 due principally to the use of cash and utilization of debt to fund our operations.

The following table summarizes our cash flow by operating, investing and financing activities for each of nine month periods ended September 30, 2008 and 2007 (in thousands):

	Nine Months Ended September 30,	
	2008	2007
Cash Flow (used in) operating activities	\$(25,233)	\$(26,055)
Cash Flow provided by investing activities	\$ 5,609	\$ 15,636
Cash Flow provided by financing activities	\$ 22,387	\$ 21,641

*Net cash used in operating activities.* We used approximately \$25.2 million and \$26.0 million of cash for operating activities during the nine months ended September 30, 2008 and 2007, respectively, primarily as a result of operations during these periods. We generated approximately \$2.9 million from operating assets and liabilities during the nine months ended September 30, 2008. We generated approximately \$2.7 million to fund operating assets and liabilities during the nine months ended September 30, 2007.

*Net cash provided by (used in) investing activities.* We generated approximately \$5.6 million and \$15.6 million of cash from investing activities during the nine months ended September 30, 2008 and 2007 respectively, principally from the maturity of investments. We used approximately \$0.5 million and \$4.1 million of cash for the purchase of equipment during the nine months ended September 30, 2008 and 2007, respectively.

*Net cash provided by financing activities.* We generated approximately \$22.4 million and \$21.6 million from financing activities during the nine months ended September 30, 2008 and 2007, respectively. During the nine months ended September 30, 2008 we drew \$10.0 million under our revolving line with our primary lending bank and \$4.0 million under our line of credit with certain of our stockholders and received \$10.0 under the agreement with Biosense Webster. We repaid \$2.5 million scheduled amounts due under our older equipment loans. We generated approximately \$21.0 million from the proceeds of our common stock offering in the first quarter of 2007.

### **Borrowing facilities**

In February 2008, we entered into a Note and Warrant Purchase Agreement with two of our stockholders providing for \$20 million in loan availability. These funds can be drawn at our election, would be subordinated to any bank debt, would be unsecured, and unless extended, would be due at the maturity date of February 2009. The commitment may also be used to provide guarantees to our primary lending bank to support advances under the credit agreement with the bank. The financing commitment from the stockholders is subject to a 90 day extension, solely at our option, providing for an extended maturity date of May 2009. We issued warrants to purchase approximately 572,000 shares of the Company's common stock at an exercise price of \$6.99 to the stockholders in exchange for the financing commitment. The warrants are exercisable



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immediately upon grant and expire five years from the date of grant. To the extent such warrants are exercised on a cash basis, we will receive proceeds from the exercise of such warrants; however, we will not receive the proceeds from the sales of the underlying shares. As of September 30, 2008, of the \$20 million available to us under this agreement, \$10 million has been utilized to guarantee the amounts outstanding to our primary lender and \$4 million has been drawn by us.

In conjunction with this transaction, we entered into a loan modification agreement with our primary lender to increase the maximum borrowing capacity of our revolving line of credit from \$25 million to \$30 million subject to a borrowing base of qualifying accounts receivable and inventory, with up to \$10 million available under the line supported by these guarantees. Under the revised facility we are required to maintain a minimum “tangible net worth” as defined in the agreement of at least \$5 million at the end of any calendar quarter during the term of the agreement, with lesser amounts required at non-quarter month ends. The revolving line of credit under the loan agreement matures in March 2009 and the interest rate is calculated at the greater of the lender’s prime rate plus 1% or 6% for the guaranteed line and the greater of the lender’s prime rate plus 1% or 7% for all other borrowings under the revolving line. The loan agreement is secured by substantially all of our assets and includes customary affirmative, negative and financial covenants. For example, we are restricted from incurring additional debt, disposing of or pledging our assets, entering into merger or acquisition agreements, making certain investments, allowing fundamental changes to our business, ownership, management or business locations, and from making certain payments in respect of stock or other ownership interests, such as dividends and stock repurchases. We are also required under the loan agreements to maintain our primary operating account and the majority of our cash and investment balances in accounts with the lender. As of September 30, 2008, we had \$13.2 million outstanding under our revolving line of credit and had an unused line of approximately \$16.8 million with borrowing capacity of \$20.4 million, including amounts already drawn, based on qualifying receivables and inventory balances. As of September 30, 2008, we had aggregate outstanding balances of approximately \$1.2 million under our two equipment loan agreements and were in compliance with all covenants of this agreement.

In July 2008, we entered into an amendment to our existing agreements with Biosense Webster, Inc. Pursuant to the amendment, Biosense Webster agreed to pay us \$10.0 million as an advance on revenue share amounts that were owed at the time the amendment was executed or may be owed in the future by Biosense Webster to us pursuant to the revenue share provisions of the existing agreement. We also agreed that an aggregate of up to \$8.0 million of certain agreed upon research and development expenses that are owed at the time the amendment was executed or may be owed in the future by the us to Biosense Webster pursuant to the existing agreement will be deferred and will be due, together with any unrecouped portion of the \$10.0 million revenue share advance, on the Final Payment Date (as defined below). Interest on the outstanding and unrecouped amounts of the revenue share advance and deferred research and development expenses will accrue at an interest rate of the prime rate plus 0.75%. Outstanding revenue share advances and deferred research and development expenses and accrued interest thereon will be recouped by Biosense Webster from time to time by deductions from revenue share amounts otherwise owed to us from Biosense Webster pursuant to the existing agreement. We have the right to prepay any amounts due pursuant to the amendment at any time without penalty. As of September 30, 2008, approximately \$17.0 million has been advanced by Biosense Webster to the Company pursuant to the amendment. As of September 30, 2008, \$2.1 million of revenue share advances had been used to reduce the advances and the remaining approximately \$15.0 million of amounts owed to Biosense Webster has been classified as long term debt in the accompanying balance sheet. All funds owed by us to Biosense Webster must be repaid on the sooner of December 31, 2011 or the date of an Accelerating Recoupment Event as defined below (the “Final Payment Date”). Commencing on May 15, 2010 we must make quarterly payments (the “Supplemental Payments”) to Biosense Webster equal to the difference between the aggregate revenue share payments recouped by Biosense Webster from us (other than revenue share amounts attributable to Biosense Webster’s sales of irrigated catheters) in such quarter and \$1 million, until the earlier of (1) the date all funds owed by us to Biosense Webster pursuant to the amendment are fully repaid or (2) the Final Payment Date. An “Accelerating Recoupment Event” means any of the following: (i) the closing of any equity-based registered public financing transaction or in the event of convertible debt, the conversion of such debt into equity in which we raise at least \$50 million; (ii) our failure of the to make any Supplemental Payment; or (iii) a change of control (as defined in the amendment).

### **Shelf Registration**

In August 2006, we filed a universal shelf registration statement for the issuance and sale from time to time to the public of up to \$75 million in securities, including debt, preferred stock, common stock and warrants. The shelf registration was declared effective by the SEC in September 2006. In March 2007, we completed an offering of 1,919,000 shares of our common stock at \$10.50 per share pursuant to the shelf registration. In conjunction with this transaction, we received approximately \$20.1 million in net proceeds after deducting offering expenses. As a result, we have approximately \$55 million of remaining availability under the shelf registration statement. In addition, we filed a registration statement relating to the exercise of warrants previously issued in various private financings. To the extent such warrants are exercised on a cash basis, we will receive proceeds from the exercise of such warrants; however, we will not receive the proceeds from any re-sales of the underlying shares.

### **Cash flow**

We expect to have negative cash flow from operations for the succeeding 12 month period. Throughout the remainder of 2008, we expect to continue the development and commercialization of our existing products and our research and development programs and the advancement of new products into clinical development. We expect that our research and development expenditures will decrease in 2008 and our selling, general and administrative expenses will continue to increase in order to support our product commercialization efforts. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with existing cash resources that were primarily generated from the proceeds of our public offerings, private sales of our equity securities, investor loan commitments, and from our revolving line of credit and equipment financing loans. In the future, we may finance cash needs through the sale of other equity securities, strategic collaboration agreements and debt financings. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors outside of our control.

Although our credit facility with our primary lender expires in March 2009, we currently anticipate being able to renew the facility on terms that are substantially similar to the current terms. In November 2008, the company received a commitment from the two stockholders who had issued the credit facility described above to extend the provisions of that agreement initially to March 31, 2010 on the same terms and conditions as the current agreement. While we believe our existing cash, cash equivalents and investments, amounts outstanding under the Biosense Webster agreement and funds available and anticipated to be available from our current borrowing sources will be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months, we cannot assure you that we will be able to renew our existing bank facility or will not otherwise require additional financing before that time. Although we anticipate that we will be able to extend our current credit facility before it reaches maturity date, we also cannot assure you that any such renewal or other additional financing will be available on a timely basis on terms acceptable to us or at all, or that any such other financing will not be dilutive to our stockholders. If adequate funds are not available to us, we could be required to delay development or commercialization of new products, to license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize ourselves or to reduce the sales, marketing, customer support or other resources devoted to our products, any of which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

We have exposure to market risk related to our investments, particularly auction rate securities. At September 30, 2008 we held approximately \$500,000 in auction rate securities against which we have taken approximately \$32,000 as an impairment charge during the nine months ended September 30, 2008. Auction rate securities are private placement securities with long-term maturities for which the interest rates are reset through a Dutch auction each month. We invested only in auction rate securities with AAA/Aaa ratings at the time of purchase. Although the monthly auctions have historically provided a liquid market for these securities, the liquidity issues experienced in the auction rate securities market have limited our ability to liquidate our holdings. In October 2008, we accepted an offer from one of our investment advisors to

repurchase our outstanding security at par value. Although we expect the transaction to be completed in 2008, if the settlement is altered or delayed, it is possible that we will be unable to liquidate our holdings, be required to sell the securities at a substantial loss or take an additional impairment charge.

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

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

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

#### **ITEM 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.

**STEREOTAXIS, INC.**  
**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

Our Risk Factors are discussed in our Annual Report on Form 10-K for the year ended December 31, 2007 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

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

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits: See Exhibit Index herein

**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 10, 2008

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

Date: November 10, 2008

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

**EXHIBIT INDEX**

<u>Number</u>	<u>Description</u>
3.1(1)	Restated Certificate of Incorporation of the Company
3.2(1)	Restated Bylaws of the Company
10.1*	Second Amendment to Development Alliance and Supply Agreement, dated as of July 18, 2008, between the Registrant and Biosense Webster, Inc. (filed herewith)
10.2#	Stereotaxis, Inc. 2002 Stock Incentive Plan, as amended and restated on May 29, 2008 (filed herewith)
31.1	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
31.2	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).
32.1	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
32.2	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).
*	Confidential treatment requested as to certain portions, which portions are omitted and filed separately with the Securities and Exchange Commission.
#	Indicates management contract or compensatory plan
(1)	This exhibit was previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (filed November 12, 2004) (File No. 000-50884), and is incorporated herein by reference.

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

**SECOND AMENDMENT  
TO DEVELOPMENT ALLIANCE AND SUPPLY AGREEMENT**

This second amendment (“Second Amendment”) is made effective as of this 18<sup>th</sup> day of July, 2008, and amends that certain Development Alliance and Supply Agreement dated May 7, 2002 between Biosense Webster, Inc. (“Biosense Webster”) and Stereotaxis, Inc. (“Stereotaxis”) (the “Master Collaboration Agreement”), as amended previously by (i) that certain Amendment to Development and Supply Agreement dated November 3, 2003 (the “First Amendment”) (the Master Collaboration Agreement and First Amendment collectively referred to as the “Amended Master Agreement”), (ii) that certain side letter between the parties dated November 3, 2003, regarding research and development (the “R&D Side Letter”), (iii) that certain Alliance Expansion Agreement dated May 4, 2007 (“Expansion Agreement”) and (iv) four side letters between the parties, each dated May 4, 2007, whose subject matter was, respectively, CARTO Pro RMT, Third Party Collaboration Rights, Exclusivity and the meaning of Customers in the Non-Localized Alliance (collectively, the “2007 Side Letters”) (the Master Collaboration Agreement, First Amendment, R&D Side Letter, Expansion Agreement and 2007 Side Letters, collectively referred to as the “Existing Agreements”).

**RECITALS**

WHEREAS, Stereotaxis has developed a computerized instrument control system known as the NIOBE™ System that enables navigation utilizing externally applied magnetic fields of various electrophysiology devices; and,

WHEREAS, Biosense Webster has developed and markets an electrophysiology mapping system known as the CARTO™ system that enables mapping and ablation of cardiac tissue using proprietary localization sensor technology; and,

WHEREAS pursuant to the Existing Agreements, Stereotaxis and Biosense Webster have, jointly or solely, developed a Compatible CARTO System and/or a Compatible NIOBE – CARTO System and certain associated proprietary, interventional, disposable, electrophysiology devices (“Daughter Products and Partnered NL Products” as defined in the Existing Agreements) and Biosense Webster manufactures, markets and sells such Daughter Products and Partnered NL Products; and,

WHEREAS, Stereotaxis has developed, manufactures, markets and sells Odyssey Network Solutions including but not limited to Odyssey Link Technology such as the Odyssey

Workstation (as defined in Section 1.1.5) for use with a global network known as the Odyssey Network (as defined in Section 1.1.3) that enables users of the Odyssey Network Solutions to view an integrated display of data related to medical procedures and obtain clinical and technical support through the network connection; and

WHEREAS, Biosense Webster and Stereotaxis desire to expand their alliance in order to advance the opportunities for magnetic navigation and in order to extend the Odyssey Network and collaborate to increase the opportunities for use of the Odyssey Network to provide clinical and technical support to customers;

NOW THEREFORE, in consideration of the mutual promises, covenants and conditions herein, the Parties agree as follows:

**ARTICLE 1**  
**DEFINITIONS**

1.1 Defined Terms. As used in this Second Amendment, the following terms shall have the meanings set forth below:

1.1.1 "Irrigated Catheters" shall mean Magnetic Irrigation Catheters as that term is defined in the Expansion Agreement.

1.1.2 "Non-Irrigated Catheters" shall mean Daughter Products and Partnered NL Catheters excluding Irrigated Catheters.

1.1.3 "Odyssey Intellectual Property" shall mean all Intellectual Property Rights now used or that become used by Stereotaxis in implementing the Odyssey Network Solutions that are either owned by Stereotaxis (its successors or assigns) or are licensed to Stereotaxis by a third party with the right to sublicense others.

1.1.4 "Odyssey IP License" shall mean the license granted in section 6.1(a) of this Second amendment.

1.1.5 "Odyssey Link Technology" shall mean any proprietary Stereotaxis hardware and associated software developed or used for the purpose of consolidating, transmitting and/or receiving information on the Odyssey Network, including, without limitation, the Odyssey Workstation.

1.1.6 "Odyssey Network" shall mean the proprietary Stereotaxis global network of network connections, infrastructure and associated management software for linking Odyssey Workstations and other Odyssey Link Technology to a customer service center.

1.1.7 "Odyssey Network Solutions" shall mean the Odyssey Network, Odyssey Link Technology products including the Odyssey Workstation, and any other products and services, features, or content developed, offered or used for the purpose of consolidating, transmitting and/or receiving information, content, and/or services using the Odyssey Network.



1.1.8 "Odyssey Workstation" shall mean the proprietary Stereotaxis product comprising hardware and associated software used to consolidate information from multiple systems on a single display with a video transmitter for remotely accessing this information from any location on the Odyssey Network.

1.2 Undefined Terms. Terms and definitions used in this Second Amendment but not defined in this Section 1 shall have the same meanings given to such terms in the relevant Existing Agreement.

**ARTICLE 2**  
**REVENUE SHARE ADVANCE AND R&D DEFERRAL**

2.1 Revenue Share Advance. Biosense Webster shall pay Stereotaxis TEN MILLION UNITED STATES DOLLARS (\$10,000,000) ("Revenue Share Advance") within ten (10) business days after the execution of this Second Amendment as an advance of Revenue Share amounts that are either owed or may become owed by Biosense Webster to Stereotaxis pursuant to the Existing Agreements. After such payment, the Revenue Share Advance (plus any interest due thereon accrued pursuant to Section 2.3 of this Second Amendment) shall be recouped, to the extent not otherwise paid by Stereotaxis pursuant to this Second Amendment, by Biosense Webster by deduction from amounts otherwise due and owing, whether now or in the future, by Biosense Webster to Stereotaxis pursuant to the Revenue Share provisions of the Existing Agreements, including, without limitation, the amount of Revenue Share due from Biosense Webster to Stereotaxis in the amount set forth in Exhibit B, which shall be recouped immediately by Biosense Webster after payment of the Revenue Share Advance. All unrecouped Revenue Share Advances shall accrue interest in accordance with Section 2.3 of this Second Amendment. The Revenue Share Advances, together with interest accrued thereon, if any, which have not previously been paid or recouped shall be due on the earlier to occur of (a) December 31, 2011, or (b) in the event an Accelerating Recoupment Event has occurred, the date provided in Section 2.5 below (the earlier to occur of (a) or (b), the "Final Payment Date"). Any dispute regarding payment and recoupment of the Revenue Share Advances shall be resolved in accordance with the Dispute Resolution provisions of the Master Collaboration Agreement.

2.2 Deferred Research and Development Expenses. Biosense Webster and Stereotaxis hereby agree that certain research and development work, including without limitation registration of Celsius RMT in Japan (hereafter "R&D"), has been performed by Biosense Webster pursuant to the Existing Agreements. The amount payable by Stereotaxis for R&D work performed is set out in Exhibit B. Payment of the (i) amount in Exhibit B and (ii) any future amount owed by Stereotaxis to Biosense Webster for R&D (up to a cumulative \$8 million) shall be deferred until no later than the Final Payment Date ("R&D Deferral"), and such amount shall accrue interest as provided in Section 2.3 of this Second Amendment. Biosense Webster may recoup any portion of the R&D Deferral (and interest thereon) remaining unpaid after full recoupment or payment of the entire Revenue Share Advance and interest thereon, to the extent not otherwise paid by Stereotaxis pursuant to this Second Amendment, from amounts otherwise owing by Biosense Webster to Stereotaxis pursuant to the Revenue Share provisions of the Existing Agreements. Any portion of the R&D Deferral not previously paid or recouped, together with interest thereon, shall automatically become finally due on the Final Payment Date.

Any dispute regarding payment and recoupment of the R&D Deferral shall be resolved in accordance with the Dispute Resolution provisions of the Master Collaboration Agreement.

2.3 Interest. Commencing on (i) the date Biosense Webster advances the Revenue Share Advance to Stereotaxis or (ii) the date of this Second Amendment for the amount of R&D Deferral in Exhibit B or (iii) the invoice date of any future R&D Deferral amount, interest shall accrue on any unrecouped or unpaid portion of the Revenue Share Advance and any portion of the R&D Deferral that remains unrecouped or unpaid at the rate of the prime rate plus 0.75 % in effect on the date of said advance. Interest shall be calculated and compounded at a per annum rate based upon a 365 day year. The “prime rate” shall mean the Prime Rate published by Citibank on the relevant date.

2.4 Payment. Payments of advances and interest, if applicable, shall be made to Biosense Webster, by check mailed to it, at the address above, or at any other place in the United States hereafter designated by Biosense Webster in writing delivered to Stereotaxis.

(a) Priority. All payments shall be applied first to interest then due, if any, and then to recoupment of the advances and R&D Deferrals.

(b) Prepayment. Stereotaxis shall have the right (but not the obligation) to make one or more partial payments and/or full payment of the Revenue Share Advance and R&D Deferrals (and any interest due thereon) at any time or from time to time.

2.5 Accelerating Recoupment Events. If any of the following events (each, an “Accelerating Recoupment Event”), shall occur:

(a) the closing of any straight equity-based registered public financing transaction or in the event of convertible debt, the conversion of such debt into equity (a “Financing”) which raises FIFTY MILLION UNITED STATES DOLLARS (\$50,000,000) or more of capital for Stereotaxis or any of its successors or assigns;

(b) non-payment by Stereotaxis of any Supplemental Payment or other payment under this Second Amendment when due and failure by Stereotaxis to pay such amount within 30 days after receipt of notice from Biosense Webster that a non-payment has occurred; or

(c) a Change of Control of Stereotaxis, defined for purposes of this Second Amendment, as (i) an event whereby any natural person, corporation, general partnership, limited partnership, joint venture, proprietorship or other business organization (each, a “Person”), including such Person’s affiliates, or “group” (as such term is defined under Section 13(d) of the Securities Exchange Act of 1934, as amended) acquires beneficial ownership of capital stock of Stereotaxis entitling the holder(s) thereof to more than fifty percent (50%) of the voting power of the then outstanding capital stock of Stereotaxis with respect to the election of directors of Stereotaxis, or (ii) a sale or transfer of all or substantially all of the assets of Stereotaxis to any Person. By way of clarification, the definition of “Control” in Section 1.2.16 of the Master Collaboration Agreement is not applicable to this definition of Change of Control;

then, and in any such event, subject to the terms herein, Stereotaxis or its successors, transferee or assignee shall pay to Biosense Webster any unrecouped amount of the Revenue Share Advance or R&D Deferral plus any interest due and owing pursuant to Section 2.3 of this Second Amendment no later than the date of the Accelerating Recoupment Event.

2.6 Partial Acceleration. If a Financing occurs which raises FORTY MILLION UNITED STATES DOLLARS (\$40,000,000) or more of capital for Stereotaxis or any of its successors or assigns, then, and in any such event, subject to the terms herein, Stereotaxis shall pay seventy-five percent (75%) of any unrecouped amount of the Revenue Share Advance and R&D Deferral plus any interest due pursuant to Section 2.3 within thirty (30) days. If a Financing occurs which raises THIRTY MILLION UNITED STATES DOLLARS (\$30,000,000) or more of capital for Stereotaxis or any of its successors or assigns, then, and in any such event, subject to the terms herein, Stereotaxis shall pay fifty percent (50%) of any unrecouped amount of the Revenue Share Advance and R&D Deferral plus any interest due pursuant to Section 2.3 within thirty (30) days. If the applicable percentage of such advances or deferrals are not recouped by Biosense Webster in such period, then such amount shall, at the option of Biosense Webster, be recouped by Biosense Webster from payments otherwise due and owing by Biosense Webster to Stereotaxis pursuant to the Revenue Share sections of the Existing Agreements. If Stereotaxis pays the applicable percentage of the unrecouped amount of the advances and deferrals, and interest due thereon, in accordance with either of the first two sentences of this Section 2.6, the remainder of the unrecouped advances and deferrals, and interest due thereon, shall, to the extent not otherwise paid pursuant to this Second Amendment, be recouped by Biosense Webster in accordance with Sections 2.1 and 2.2.

2.7 Accelerating Transactions. For purposes of Section 2.5(a) and Section 2.6, multiple Financings that occur within any six (6) month period shall be deemed one transaction and the amounts raised shall be accumulated for purposes of determining whether and the amounts of payments to be accelerated.

### **ARTICLE 3** **RIGHTS OF BIOSENSE WEBSTER**

#### **3.1 Supplemental Payments Following Expiration of Existing Agreements; Rights of Biosense Webster Upon Failure to Make Supplemental Payments.**

(a) If the Revenue Share Advances and R&D Deferral, together with interest due thereon, are not fully recouped by or paid to Biosense Webster in accordance with the terms of this Second Amendment on or before December 31, 2009, which is the date of expiration of the Master Collaboration Agreement, unless terminated earlier in accordance with the provisions of the Master Collaboration Agreement (the "Master Agreement Expiration Date"), then Stereotaxis shall, commencing with the first full calendar quarter following the Master Agreement Expiration Date, make supplemental quarterly payments ("Supplemental Payments") to Biosense Webster on or before the forty-fifth (45<sup>th</sup>) day after the end of each such calendar quarter, which shall reduce the amount of Revenue Share Advances and R&D Deferral (and interest thereon) due from Stereotaxis to Biosense Webster, until all Revenue Share Advances and R&D Deferral, together with interest due thereon, have been paid in full. The Supplemental Payment in

each quarter shall be the amount that will, when added to the aggregate of any Revenue Share amounts or other payments recouped by Biosense Webster in the quarter, other than Revenue Share amounts attributable to Biosense Webster's sales of Irrigated Catheters in such quarter, total ONE MILLION US DOLLARS (\$1,000,000).

(b) Notwithstanding the foregoing Section 3.1(a), if the aggregate amount of the Revenue Share payable to Stereotaxis under the Alliance Expansion during any calendar quarter exceeds the amount of Revenue Share Advances and R&D Deferral (together with interest thereon) which remains due, or if Stereotaxis otherwise pays such advances or deferrals plus interest thereon, then no Supplemental Payment shall be due and Stereotaxis shall have no further obligation under Section 3.1(a).

### 3.2 Grant of Rights; Failure to Recoup or Pay.

(a) Rights relating to Non-Irrigated Catheters. Stereotaxis hereby grants and Biosense Webster hereby accepts a non-exclusive worldwide license (with right to sublicense) under Stereotaxis' Intellectual Property Rights in the Stereotaxis IP to make, have made, use, import, sell, offer for sale, distribute or otherwise dispose of (directly or through multiple tiers of distribution) Non-Irrigated Catheters, and Compatible CARTO Systems for use with such Non-Irrigated Catheters (the "Non-Irrigated Catheter License"). (i) Prior to December 31, 2009, which is the date of expiration of Biosense Webster's exclusive distribution rights of Non-Irrigated Catheters under the Existing Agreements, the Revenue Share on sales of Non-Irrigated Catheters shall continue to be calculated in accordance with the Master Collaboration Agreement. Such Revenue Share shall be used to recoup any outstanding Revenue Share Advance and R&D Deferral, together with interest due thereon, if any, pursuant to this Second Amendment. (ii) After December 31, 2009, which is the date of expiration of Biosense Webster's exclusive distribution rights of Non-Irrigated Catheters under the Existing Agreements, the Revenue Share on sales of Non-Irrigated Catheters shall continue to be calculated in accordance with the Master Collaboration Agreement except that the rate shall be the rate used to determine the Revenue Share paid in the last quarter of the final year in which the Master Collaboration Agreement was in effect, unless otherwise agreed. Such Revenue Share shall be used to recoup any outstanding Revenue Share Advance and R&D Deferral, together with interest due thereon, if any, pursuant to this Second Amendment. (iii) The Non-Irrigated Catheter License shall terminate on the last day of the first calendar quarter which is at least 90 days after the Revenue Share Advances and the R&D Deferral, together with interest due thereon, if any, are recouped in full by Biosense Webster and/or paid by Stereotaxis; provided, however, if the Revenue Share Advances and the R&D Deferral, together with interest due thereon, are not recouped in full by Biosense Webster and/or paid by Stereotaxis on or before the Final Payment Date, then the non-exclusive Non-Irrigated Catheter License granted by Stereotaxis to Biosense Webster pursuant to this Section 3.2(a) shall automatically and immediately become fully-paid, perpetual and irrevocable, and any obligation of Biosense Webster to pay Revenue Share in consideration of the Non-Irrigated Catheter License shall terminate. (iv) For purposes of clarification, the termination of the Non-Irrigated Catheter License granted in this Second Amendment shall not affect any existing license or other rights or obligations of the parties relating to Non-Irrigated Catheters provided in the Existing Agreements.

(b) Rights relating to the Irrigated Catheters. Stereotaxis hereby grants and Biosense Webster hereby accepts a non-exclusive, worldwide license (with right to sublicense) under Stereotaxis' Intellectual Property Rights in the Stereotaxis IP, to make, have made, use, import, sell, offer for sale, distribute or otherwise dispose of (directly or through multiple tiers of distribution) Irrigated Catheters and Compatible CARTO Systems for use with the Irrigated Catheters (the "Irrigated Catheter License"). (i) Prior to termination or expiration of the Expansion Agreement, the Revenue Share on sales of Irrigated Catheters shall continue to be calculated in accordance with the Existing Agreements. Such Revenue Share shall be used to recoup any outstanding Revenue Share Advance and R&D Deferral, together with interest thereon, if any, pursuant to this Second Amendment. (ii) The Irrigated Catheter License shall terminate on the last day of the first calendar quarter which is at least 90 days after the Revenue Share Advances and the R&D Deferral, together with interest thereon, if any, are recouped in full by Biosense Webster and/or paid by Stereotaxis. For purposes of clarification, the termination of the Irrigated Catheter License granted in this Second Amendment shall not affect any existing license or other rights of Biosense Webster relating to Irrigated Catheters granted in the Existing Agreements. (iii) If the Revenue Share Advances and the R&D Deferral, together with interest due thereon, are not recouped in full by Biosense Webster and/or paid by Stereotaxis on or before the Final Payment Date, then the non-exclusive Irrigated Catheter License granted in this Section 3.2(b) shall automatically and immediately become fully-paid, perpetual and irrevocable, and any obligation of Biosense Webster to pay Revenue Share on Irrigated Catheters in connection with the Irrigated Catheter License granted in this Second Amendment shall terminate; provided however, notwithstanding the previous sentence, Biosense Webster shall remain obligated until the expiration or termination of the Existing Agreements to pay Revenue Share upon the sale of any Irrigated Catheter in accordance with such agreements.

3.3 Research and Development Obligations. The parties agree if Stereotaxis should fail to make a payment when due under this Second Amendment or any Supplemental Payment, together with interest due thereon, and fails to cure within 30 days of receipt of written notice from Biosense Webster, then Biosense Webster shall be relieved of its obligation to perform R&D under the Existing Agreements covered by the invoice that relates to such payment, until payment has been made.

#### **ARTICLE 4** **PROTECTIVE FILINGS**

4.1 Intent of the Parties. The Revenue Share Advance and the R&D Deferral are intended to amend and thus become part of the Existing Agreements.

4.2 Filings. Biosense Webster has the right to make protective and/or precautionary filings in a form subject to the written consent of Stereotaxis, which consent shall not be unreasonably withheld or delayed, solely for the purpose and with the effect of and to the extent necessary to protect Biosense Webster's full enjoyment and exercise of the Irrigated Catheter License and the

Non-Irrigated Catheter License granted in this Second Amendment. The parties have agreed that Biosense Webster may make filings in the UCC records and the United States Patent and Trademark Office in the form attached hereto as Exhibit A, which Stereotaxis shall execute contemporaneously with this Second Amendment. Notwithstanding any contrary provision in any such protective and/or precautionary filing, nothing herein or therein is intended to grant or convey to Biosense Webster any rights or interests in any asset owned or property held by Stereotaxis, other than the non-exclusive rights granted under the Irrigated Catheter License and the Non-Irrigated Catheter License granted or conveyed in this Second Amendment. Any security interest granted hereby or by the attached Assignment for Security shall be released, and Biosense Webster shall cancel or withdraw any security filings hereunder when the Revenue Share Advances and the R&D Deferral, together with interest due thereon, have been fully recouped by Biosense Webster and/or fully paid by Stereotaxis. Notwithstanding the prior sentence, any security interest granted hereby is not intended in any event to secure Biosense Webster's right to repayment but rather is intended to protect Biosense Webster's full enjoyment and exercise of the Irrigated Catheter License and the Non-Irrigated Catheter License as granted in this Second Amendment in the event that the Revenue Share Advances and the R&D Deferral, together with interest due thereon, have not been fully recouped by Biosense Webster and/or fully paid by Stereotaxis.

## **ARTICLE 5** **NEGOTIATIONS**

5.1 Negotiations. The parties agree to commence good faith negotiations upon execution of this Second Amendment of a definitive agreement, with a target signing and effective date of January 1, 2009, to expand the collaboration alliance between Stereotaxis and Biosense Webster and enable Stereotaxis to co-promote, market and distribute certain mutually-agreed Non-Irrigated Catheters to be sold to Stereotaxis by Biosense Webster.

5.2 Subject to Management Approval. Neither party shall be obligated to enter into any such distribution agreement unless its management approves, at the sole discretion of such management, the terms and conditions of the negotiated definitive agreement. For clarification, no party shall be obligated to enter into a commercially unreasonable arrangement.

## **ARTICLE 6** **ODYSSEY LICENSE**

### 6.1 Network License.

(a) License and Rights Granted to Biosense Webster. Biosense Webster and Stereotaxis wish to collaborate to expand and promote the Odyssey Network in order to provide enhanced clinical and technical service and support to their customers. Accordingly, subject to the terms and conditions of this Second Amendment, Stereotaxis hereby grants to Biosense Webster and Biosense Webster hereby accepts (i) a non-exclusive right to allow Biosense Webster to connect to its customers via the Odyssey Network in order to provide clinical and technical support for Biosense Webster products and related services ("Clinical and Technical Support"), and (ii) a non-exclusive license, with no right to sublicense (other than to Affiliates of Biosense Webster who are providing Clinical and Technical Support to Biosense Webster customers), under the

Odyssey Intellectual Property, to the extent necessary and for the purpose of Clinical and Technical Support of Biosense Webster customers connected to the Odyssey Network under paragraph (i) above (“Odyssey IP License”)(such right to connect, and Odyssey IP License, collectively, the “Network License”). The Network License is fully paid, perpetual and non-transferable, but may not be used by Biosense Webster for any commercial purposes other than for Clinical and Technical Support of Biosense Webster customers connected to the Odyssey Network.

(b) Stereotaxis Rights Retained. Biosense Webster acknowledges and agrees that except for the limited Network License expressly granted hereunder, Stereotaxis retains ownership of all Odyssey Network IP and retains all rights to design, manufacture, market, distribute and sell Odyssey Network Solutions products and services, and to provide connections, products, content, and services to third parties, and does not include the right to connect to third parties. Nothing in this Second Amendment shall be deemed to affect Stereotaxis’ rights to use or sell Odyssey Network Solutions or to guarantee or require that Stereotaxis shall make any sale or provide any products or services or connections to any customer.

6.2 Requirements for Connection to the Odyssey Network. The Network License provides Biosense Webster the right to connect to any Biosense Webster customer by means of connection to the Odyssey Network, (the “Network Connection”) subject to the approval of such customers, and compliance by Biosense Webster and its customers with applicable legal and network requirements (including, without limitation, HIPAA) regarding use of the Odyssey Network. Nothing herein shall be deemed to require Stereotaxis to connect any customer to the Odyssey Network, or to add customers to the Odyssey Network in a timeframe or on terms or conditions that differ from Stereotaxis’ ordinary course of business.

### 6.3 Connection Fees; Sale of Odyssey Network Solutions Products and Services.

(a) Paid up Network License. The paid-up license and rights set forth in Section 6.1 and 6.2 do not include (i) the cost of the Odyssey Network Solutions products or services, licenses, installation, or maintenance (including by way of illustration Odyssey Link Technology such as the Odyssey Workstation), which Biosense Webster and customers shall purchase in accordance with Stereotaxis terms and conditions in effect from time to time, or (ii) the costs associated with establishing and continuing to provide and support the Network Connection, as further described in (b) below (“Connection Fees”).

(b) Connection Fees. Biosense Webster shall pay Stereotaxis \* of the fully-loaded cost of establishing and continuing to provide and support the Network Connection, including all costs of connecting Biosense Webster to the customer on the Odyssey Network (collectively, “Connection Fees”). For purposes of this Section, “fully-loaded” shall mean actual costs plus overhead in the amount of \* of actual costs, provided, however, either party may request, not more than once per year, that the Joint Steering Committee provided for in the Master Collaboration Agreement review whether such percentage is a commercially reasonable reflection of the overhead of Stereotaxis. By way of illustration Connection Fees include installation and set-up costs, line fees, maintenance and service charges, and do not include payments made by Biosense Webster or its customers to Stereotaxis under (c) hereinbelow. Throughout the duration and as a condition of the Network Connection Biosense Webster shall pay Stereotaxis within thirty (30) days of the receipt of invoices for said Connection Fees.

(c) Odyssey Network Solutions Products and Services. The Network Connection requires purchase of the necessary applicable Odyssey Network Solutions products or services by Biosense Webster and its customers, and associated installation and maintenance, and software and product licenses, pursuant to Stereotaxis standard terms and conditions in effect from time to time.

#### 6.4 Most Favored Nations Pricing.

(a) Connection Fees. If Stereotaxis provides any Restricted Party (as defined under the Existing Agreements), or \* or any assignee or successor in interest to such businesses (any Restricted Party and each of the above-named, hereinafter a "Third Party Licensee") with Network Connection rights involving products and levels of service and numbers of customer connections substantially similar to those provided to Biosense Webster, whether through a license agreement or any other business arrangement, and such Third Party Licensee's Connection Fee is less than Biosense Webster's Connection Fee set forth above in Section 6.3, then Stereotaxis shall promptly notify Biosense Webster of such lower Connection Fee and effective from the date Stereotaxis first charged such lesser Connection Fee, Biosense Webster shall immediately begin to pay such lower Connection Fee for each of its substantially similar Network Connections.

(b) Network License Fee Refunds. If Stereotaxis grants a Third Party Licensee a Network License, whether through a license agreement or any other business arrangement providing substantially the same rights, for a total sum less than \* UNITED STATES DOLLARS (\$\*), Stereotaxis shall, within sixty (60) days of Stereotaxis' receipt of such payment by such Third Party Licensee, pay Biosense Webster a "Network License Fee Refund" in an amount equal to the difference between the fee actually charged such third parties and \* UNITED STATES DOLLARS (\$\*), up to a total cumulative cap of \* UNITED STATES DOLLARS (\$\*). Network License Fee Refunds shall not be payable for any licenses, uses, or connections granted to a Third Party Licensee for a time period of less than ninety days including, without limitation, for evaluation, development, testing, research or repairs.

(c) Audit. Biosense Webster has the right to engage a third party auditor to audit all records of Stereotaxis reasonably necessary to determine whether Stereotaxis is complying with its obligations under this Article 6 including without limitation that Stereotaxis is requiring third parties to license access to the Odyssey Network, that Biosense Webster is paying the lowest Connection Fee provided any Third Party Licensee and/or to determine whether Biosense Webster is due any Network License Fee Refund. Biosense Webster shall be entitled to have such an audit performed once within any twelve (12) month period during the term of this Agreement. Stereotaxis shall make such records available to such third party auditor at its offices during regular business hours. The cost of the audit shall be borne by Biosense Webster if Biosense Webster is paying the lowest Connection Fee in accordance with Section 6.4 and is not due a Network License Refund, otherwise the commercially reasonable cost shall be borne by Sterotaxis.



#### 6.5 Change of Control of Stereotaxis.

(a) Continued Right to Connect to Biosense Webster Customers for Eighteen Months. In the event of (i) a Change of Control (as defined in Section 2.5 of this Second Amendment), (ii) the sale or other transfer by Stereotaxis of all or substantially all of its right, title and interest in or to the Odyssey Network or of all or substantially all of its rights to the Odyssey Intellectual Property (such date of Change of Control, sale or transfer being the "COC Date"), and if Biosense Webster has Network Connections to any of its customers on the COC date, then for a period limited to eighteen (18) months after the COC Date, Stereotaxis or its successor, transferee or assignee shall provide Biosense Webster with the right to connect to any additional Biosense Webster customer by means of connection to the Odyssey Network, subject to and in accordance with the terms and conditions of this Second Amendment.

(b) Continued Obligation to Support Network Connection for Thirty-Six Months. For a period limited to thirty-six (36) months after the COC Date, Stereotaxis or its successor, transferee or assignee shall continue to provide and support the Network Connection between Biosense Webster and each Biosense Webster customer that is connected and operating on the COC Date or at any time during the period ending eighteen months after the COC Date, subject to continued payment by Biosense Webster of the Connection Fees associated with all such Network Connections and continued compliance by Biosense and the customers with all commercially reasonable requirements of Stereotaxis relating to the Odyssey Network.

(c) Technology Transfer if No Continued Support After Thirty-six Months. Stereotaxis or its successor, transferee or assignee shall provide Biosense Webster with no less than eighteen (18) months written notice if Stereotaxis or its successor, transferee or assignee does not wish to continue to provide and support the Network Connection between Biosense Webster and its customers after the date that is thirty-six months after the COC Date, and if such notice is provided, then, Stereotaxis or its successor, transferee or assignee shall provide reasonable technical support within the said eighteen (18) months to assist Biosense Webster in establishing an alternative Network Connection using Stereotaxis' vendors or others; provided, however, such support shall not exceed in the aggregate engineering support equivalent to \* and out of pocket expenses not to exceed \* DOLLARS (\$\*).

(d) Survival of Network License. The perpetual non-exclusive Odyssey IP License granted in Section 6.1 shall survive a Change of Control of Stereotaxis (as defined in Section 2.5 of this Second Amendment) or the sale or other transfer by Stereotaxis of all or substantially all of its right, title and interest in and to the Odyssey Network or the Odyssey IP or both.

6.6 Disputes Regarding Article 6. Any dispute regarding breach of this Article 6 by either party shall be resolved in accordance with the Dispute Resolution provisions of the Master Collaboration Agreement.

**ARTICLE 7**  
**MISCELLANEOUS**

7.1 Original Agreements in Full Force and Effect. Except as expressly modified by this Amendment, the terms of the Existing Agreements shall continue in full force and effect without modification.

7.2 Headings. All section headings contained in this Amendment are for convenience of reference only and shall not affect the meaning or interpretation of this Amendment.

7.3 Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be an original as against any party whose signature appears thereon but all of which together shall constitute one and the same instrument. A facsimile transmission of the signed Amendment shall be legal and binding on all parties.

7.4 Rights upon Insolvency. All licenses to Intellectual Property Rights granted under or pursuant to this Second Amendment or any other definitive agreement between the parties are for all purposes of Section 365(n) of Title 11, U.S. Code (the "Bankruptcy Code"), licenses of rights to "intellectual property" as defined in the Bankruptcy Code. The parties agree that Biosense Webster, as a licensee of such rights under this Second Amendment, shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code. If a case is commenced by or against Stereotaxis under the Bankruptcy Code, then, unless and until the said license rights are rejected as provided in the Bankruptcy Code, Stereotaxis (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Bankruptcy Code trustee) shall continue to perform or cause to be performed all of its obligations as licensor provided in this Second Amendment to be performed by Stereotaxis and provide or cause to be provided to Biosense Webster all such rights in any intellectual property held by Stereotaxis and such successors and assigns as is necessary to enable Biosense Webster to exercise the licenses granted in this Second Amendment. If this Second Amendment or the licenses granted hereunder are rejected as provided in the Bankruptcy Code and Biosense Webster elects to retain its rights hereunder as provided in the Bankruptcy Code, then Stereotaxis (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Bankruptcy Code trustee) shall provide or cause to be provided to Biosense Webster all such rights in such intellectual property held by Stereotaxis and such successors and assigns as is necessary to enable Biosense Webster to exercise the licenses granted in this Second Amendment immediately upon Biosense Webster's written request therefor. All rights, powers and remedies of Biosense Webster provided under this Article are in addition to and not in substitution for any and all other rights, powers and remedies now or hereafter existing at law or in equity (including, without limitation, the Bankruptcy Code) in the event of any such commencement of a bankruptcy proceeding by or against Stereotaxis. Biosense Webster, in addition to the rights, powers and remedies expressly provided in this Second Amendment, shall be entitled to exercise all other such rights and powers and resort to all other such remedies as may now or hereafter exist at law or in equity (including the Bankruptcy Code) in such event.

7.5 Successors and Assigns. The obligations and rights in this Second Amendment shall bind and inure to the benefit of each party and its successors and assigns.

7.6 Amendment and Waiver. The terms of this Second Amendment may be amended only through a written agreement signed by both Biosense Webster and Stereotaxis. Any term, representation, warranty or covenant hereof may be waived by the party that is entitled to the benefit thereof, but no such waiver in any one or more instances shall be deemed or construed as a waiver of the same or any other term of this Second Amendment on any future occasion.

7.7 Survival. This Second Amendment and all rights and obligations of the parties, including, but not limited to the obligations of Stereotaxis under Section 3.1 and the rights of Biosense Webster pursuant to Articles 2 and 3, are intended to survive the termination or expiration of any of the Existing Agreements.

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IN WITNESS WHEREOF, the Parties hereto have caused this Second Amendment to be signed by duly authorized officers or representatives, effective as of the date first written above.

STEREOTAXIS, INC.

By: /s/ Bevil Hogg  
Print Name: Bevil Hogg  
Title: CEO  
Date: July 17, 2008

BIOSENSE WEBSTER INC.

By: /s/ Shlomi Nachman  
Print Name: Shlomi Nachman  
Title: President  
Date: July 18, 2008

**Form of Protective Filing**

ASSIGNMENT FOR SECURITY

WHEREAS, Stereotaxis, Inc., a Delaware corporation having a place of business at 4320 Forest Park Avenue, St. Louis, Missouri 63108 (“Assignor”), owns the patents and applications for patent more particularly described on Schedule 1-A annexed hereto and made a part hereof (the “Patents”);

WHEREAS, Assignor has entered into the Second Amendment to Development Alliance and Supply Agreement, dated June 30, 2008 (said agreement, as it may hereafter be amended, restated, supplemented or otherwise modified from time to time, “Security Agreement”; the terms defined therein and not otherwise defined herein being used herein as therein defined) in favor of Biosense Webster, Inc., a California corporation having a place of business at 3333 Diamond Canyon Road, Diamond Bar, California 91765 (“Assignee”), and Assignee is desirous of having a security interest in favor of Assignee on the Patents in order to secure certain obligations of Assignor to Assignee;

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, Assignor does hereby assign unto Assignee and grant to Assignee a security interest in all right, title and interest of Assignor in and to the Patents together with all registrations and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Patent and Trademark Office, any similar office or agency of the United States or any State thereof, or any other office or regulatory body of any State, all whether now or hereafter owned or licensable by Assignor, and all reissues, re-examination certificates, continuations, divisionals, continuations-in-part, term restorations or extensions thereof for the full term of the Patents, for the purposes and on the terms and conditions set forth in the Security Agreement.

Notwithstanding any contrary provision herein, nothing in this Assignment For Security is intended to expand the rights of Assignee provided in the Security Agreement, as against Assignor or in any of its assets, or to prevent Assignor from granting any third parties rights or licenses provided they are consistent with the non-exclusive licenses provided in the Security Agreement.

IN WITNESS WHEREOF, Assignor has duly executed or caused this Assignment to be duly executed as of the \_\_th day of July, 2008.

STEREOTAXIS, INC.

By: /s/ B.J. Hogg  
Print Name: B.J. Hogg  
Title: CEO  
Date: July 17, 2008

Issued Patents:

\*

Pending Applications:

\*

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EXHIBIT B

**Amounts for Sections 2.1 and 2.2**

- (1) The amount of Revenue Share in Section 2.1 of the Second Amendment due as of July 1, 2008, from Biosense Webster to Stereotaxis is \$1,471,839.
- (2) The amount of R&D work in Section 2.2 of the Second Amendment due as of July 1, 2008, from Stereotaxis to Biosense Webster is \$6,727,487.



**STEREOTAXIS, INC.**  
**2002 STOCK INCENTIVE PLAN**

**As Amended and Restated effective May 29, 2008**

**1. Objectives.**

The Stereotaxis, Inc. 2002 Stock Incentive Plan (the "Plan") is designed to attract, motivate and retain selected employees of, and other individuals providing services to, the Company. These objectives are accomplished by making long-term incentive and other awards under the Plan, thereby providing Participants with a proprietary interest in the growth and performance of the Company.

**2. Definitions.**

(a) "*Awards*" — The grant of any form of stock option, performance share award, or restricted stock award, whether granted singly, in combination or in tandem, to a Participant pursuant to such terms, conditions, performance requirements, limitations and restrictions as the Committee may establish in order to fulfill the objectives of the Plan.

(b) "*Award Agreement*" — An agreement between the Company and a Participant that sets forth the terms, conditions, performance requirements, limitations and restrictions applicable to an Award.

(c) "*Board*" — The Board of Directors of the Company.

(d) "*Change of Control*" — The purchase or other acquisition (other than from the Company) by any person, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then-outstanding shares of common stock of the Company or the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of directors; or

Individuals who, as of the date hereof, constitute the Board (as of the date hereof, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person who becomes a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this section, considered as though such person were a member of the Incumbent Board; or

The consummation of a reorganization, merger or consolidation, in each case with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of, respectively, the common stock and the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated corporation's then-outstanding voting securities, or of a liquidation or dissolution of the Company or of the sale of all or substantially all of the assets of the Company.

(e) "Code" — The Internal Revenue Code of 1986, as amended from time to time.

(f) "Committee" — The committee designated by the Board to administer the Plan and chosen from those of its members, or, in the absence of any such Committee, the Board.

(g) "Company" — Stereotaxis, Inc., a Delaware corporation.

(h) "Fair Market Value" — The last sale price, regular way, or, in case no such sale takes place on such date, the average of the closing bid and asked prices, regular way, of the Shares, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange, Inc. (the "NYSE") or, if the Shares are not listed or admitted to trading on the NYSE, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Shares are listed or admitted to trading or, if the Shares are not listed or admitted to trading on any national securities exchange, the last quoted sale price on such date or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market on such date, as reported by the National Association of Securities Dealers, Inc. Automated Quotations System or such other system then in use, or, if on any such date the Shares are not quoted by any such organization, the average of the closing bid and asked prices on such date as furnished by a professional market maker making a market in the Shares selected by the Committee. If the Shares are not publicly held or so listed or publicly traded, the determination of the Fair Market Value per Share shall be made in good faith by the Committee.

(i) "Fiscal Year" — The fiscal year of the Company, as the same may be changed from time to time.

(j) "Incentive Stock Option" — A stock option intended to meet the requirements of Section 422 of the Code and the regulations thereunder.

(k) "Nonqualified Stock Option" — A stock option which is not an Incentive Stock Option.

(l) *“Participant”* — An individual to whom an Award has been made under the Plan. Awards may be made to employees of the Company, or any of its subsidiaries (including subsidiaries of subsidiaries), or any other entity in which the Company has a significant equity or other interest, as determined by the Committee, as well as individuals providing services to the Company; provided, that Incentive Stock Options may only be granted to employees of the Company or any of its subsidiaries (including subsidiaries of subsidiaries).

(m) *“Performance Period”* — A period of one or more consecutive Fiscal Years over which one or more of the performance criteria listed in Section 5(e) shall be measured pursuant to the grant of Awards (whether such Awards take the form of stock options, performance share awards, long term cash incentives or stock ownership incentive awards). Performance Periods may overlap one another.

(n) *“Shares” or “Stock”* — Authorized and issued or unissued shares of common stock of the Company.

### **3. Stock Available for Awards.**

Subject to adjustment pursuant to Section 12, the number of shares that may be issued under the Plan for Awards granted wholly or partly in stock during the term of the Plan is 8,610,998.<sup>1</sup> Shares of Stock may be made available from the authorized but unissued shares of the Company, from shares held in the Company’s treasury and not reserved for some other purpose, or from shares purchased on the open market. For purposes of determining the number of shares of Stock issued under the Plan, no shares shall be deemed issued until they are actually delivered to a Participant, or such other person in accordance with Section 9. Shares covered by Awards that either wholly or in part are not earned, or that expire or are forfeited, terminated, canceled, settled in cash, payable solely in cash or exchanged for other Awards, shall be available for future issuance under Awards. Further, shares tendered to the Company in connection with the exercise of stock options, or withheld by the Company for the payment of tax withholding on any Award, shall also be available for future issuance under Awards; provided, however, that not more than 5,194,851 shares may be used for the grant of Incentive Stock Options.

### **4. Administration.**

The Plan shall be administered by the Committee, which shall have full power to select Participants, to interpret the Plan, and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper. A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present and acts approved in writing by a majority of the Committee

<sup>1</sup> The shares available include (i) the 1,500,000 share increase as approved by the stockholders on May 29, 2008, (ii) the 1,000,000 share increase as approved by the stockholders on May 24, 2007, (iii) the shares originally included in the Plan and that were available under the Stereotaxis, Inc. 1994 Stock Option Plan, and (iv) the shares that were added annually on January 1, 2003, 2004, 2005, 2006 and 2007, respectively, pursuant to the terms of the Plan. Each of the foregoing share amounts reflect the 1-for-3.6 reverse stock split completed in July 2004.

in lieu of a meeting shall be deemed acts of the Committee. Each member of the Committee is entitled to, in good faith, rely upon any report or other information furnished to that member by any officer or other associate of the Company, any subsidiary, the Company's certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

## 5. Awards.

The Committee shall determine the type or types of Award(s) to be made to each Participant and shall set forth in the related Award Agreement the terms, conditions, performance requirements, limitations and restrictions applicable to each Award. Awards may include but are not limited to those listed in this Section 5. Awards may be granted singly, in combination or in tandem. Awards may also be made in combination or in tandem with, in replacement or payment of, or as alternatives to, grants, rights or compensation earned under any other plan of the Company, including the plan of any acquired entity.

(a) Stock Option — A stock option is a grant of a right to purchase a specified number of shares of Stock at a stated price. The exercise price of Incentive Stock Options and Nonqualified Stock Options shall be not less than 100% of Fair Market Value on the date of grant. No individual may be granted options to purchase more than 277,777<sup>2</sup> shares during any Fiscal Year.

(b) Performance Share Award — A performance share award is an Award denominated in units of stock. Performance share awards will provide for the payment of stock if performance goals are achieved over specified Performance Periods.

(c) Restricted Stock Award — A restricted stock award is an Award of Stock which will vest over time or if performance or other goals are achieved over specified Performance Periods. Restricted Stock Awards subject only to time-based vesting shall have a minimum three year vesting period (provided such awards may vest ratably over such period). Performance-based Restricted Stock Awards shall have a minimum one year vesting period, in addition to the achievement of the performance criteria set forth in the award.

(d) Performance Criteria under section 162(m) of the Code for Performance Share Awards, and Restricted Stock Awards — The performance criteria for performance share awards and restricted stock awards made to any "covered employee" (as defined by section 162(m) of the Code) and which are intended to qualify as performance-based compensation under section 162(m)(C) thereof, shall consist of objective tests based on one or more of the following: the Company's earnings per share growth; earnings; earnings per share; cash flow; customer satisfaction; revenues; financial return ratios; market performance; shareholder return and/or value; operating profits (including

<sup>2</sup> Adjusted to reflect the 1-for-3.6 reverse split completed in July, 2004

earnings before income taxes, depreciation and amortization); net profits; profit returns and margins; stock price; working capital; business trends; production cost; project milestones; and plant and equipment performance.

(e) Nothing herein shall preclude the Committee from making any payments or granting any Awards whether or not such payments or Awards qualify for tax deductibility under section 162(m) of the Code. No payments are to be made to a Participant if the applicable performance criteria are not achieved for a given Performance Period. If the applicable performance criteria are achieved for a given Performance Period, the Committee has full discretion to reduce or eliminate the amount otherwise payable for that Performance Period. Under no circumstances may the Committee use discretion to increase the amount payable to a Participant under a performance share award, or a restricted stock.

#### **6. Payment of Awards.**

Payment of Awards may be made in the form of cash, stock or combinations thereof and may include such restrictions as the Committee shall determine. Further, payments may be deferred, either in the form of installments or as a future lump-sum payment, in accordance with such procedures as may be established from time to time by the Committee. Dividends or dividend equivalent rights may be extended to and made part of any Award denominated in stock or units of stock, subject to such terms, conditions and restrictions as the Committee may establish. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividend equivalents for deferred payments denominated in stock or units of stock. At the discretion of the Committee, a Participant may be offered an election to substitute an Award for another Award or Awards of the same or different type.

#### **7. Stock Option Exercise.**

The price at which shares of Stock may be purchased under a stock option shall be paid in full in cash at the time of the exercise or, if permitted by the Committee, by means of tendering Stock or surrendering another Award or any combination thereof. The Committee may determine other acceptable methods of tendering Stock or other Awards and may impose such conditions on the use of Stock or other Awards to exercise a stock option as it deems appropriate. In addition, the optionee may effect a "cashless exercise" of a stock option in which the option shares are sold through a broker and a portion of the proceeds to cover the exercise price is paid to the Company, or otherwise in accordance with the rules and procedures adopted by the Committee.

#### **8. Tax Withholding.**

Prior to the payment or settlement of any Award, the Participant must pay, or make arrangements acceptable to the Company for the payment of, any and all federal, state and local tax withholding that in the opinion of the Company is required by law. The Company shall have the right to deduct applicable taxes from any Award payment and

withhold, at the time of delivery or vesting of shares of stock under the Plan, an appropriate number of shares for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes.

#### **9. Transferability.**

No Award shall be transferable or assignable, or payable to or exercisable by, anyone other than the Participant to whom it was granted, except (a) by law, will or the laws of descent and distribution, (b) as a result of the disability of a Participant or (c) that the Committee (in the form of an Award Agreement or otherwise) may permit transfers of Awards (other than Incentive Stock Options) by gift or otherwise to a member of a Participant's immediate family and/or trusts whose beneficiaries are members of the Participant's immediate family, or to such other persons or entities as may be approved by the Committee.

#### **10. Amendment, Modification, Suspension or Discontinuance of the Plan.**

The Board may amend, modify, suspend or terminate the Plan for the purpose of meeting or addressing any changes in law or other legal requirements or for any other purpose permitted by law; provided, however, that no such amendment, modification, suspension or termination of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant. Unless otherwise required by law, no such amendment shall require the approval of stockholders.

#### **11. Termination of Employment.**

If the employment of a Participant terminates, the status of the Award shall be as set forth in the Award Agreement.

#### **12. Adjustments.**

In the event of any change in the outstanding Stock of the Company by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, the Committee shall adjust appropriately: (a) the number of shares or kind of Stock (i) available for issuance under the Plan, (ii) for which Awards may be granted to an individual Participant set forth in Section 5, and (iii) covered by outstanding Awards denominated in stock or units of stock; (b) the exercise and grant prices related to outstanding Awards; and (c) the appropriate Fair Market Value and other price determinations for such Awards. In the event of any other change affecting the Stock or any distribution (other than normal cash dividends) to holders of Stock, such adjustments in the number and kind of shares and the exercise, grant and conversion prices of the affected Awards as may be deemed equitable by the Committee, including adjustments to avoid fractional shares, shall be made to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Committee shall be authorized to cause to issue or

assume stock options, whether or not in a transaction to which section 424(a) of the Code applies, by means of substitution of new stock options for previously issued stock options or an assumption of previously issued stock options. In such event, the aggregate number of shares of Stock available for issuance under Awards under Section 3, including the individual Participant maximums set forth in Section 5, will be increased to reflect such substitution or assumption.

### **13. Acceleration.**

The vesting schedule of any Award will not accelerate except in the cases of death, disability or retirement of the Participant or a Change of Control of the Company.

### **14. Miscellaneous.**

(a) Any notice to the Company required by any of the provisions of the Plan shall be addressed to the chief human resources officer of the Company in writing, and shall become effective when it is received.

(b) The Plan shall be unfunded and the Company shall not be required to establish any special account or fund or to otherwise segregate or encumber assets to ensure payment of any Award.

(c) Nothing contained in the Plan shall prevent the Company from adopting other or additional compensation arrangements or plans, subject to stockholder approval if such approval is required, and such arrangements or plans may be either generally applicable or applicable only in specific cases.

(d) No Participant shall have any claim or right to be granted an Award under the Plan and nothing contained in the Plan shall be deemed or be construed to give any Participant the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge any Participant at any time without regard to the effect such discharge may have upon the Participant under the Plan. Except to the extent otherwise provided in any plan or in an Award Agreement, no Award under the Plan shall be deemed compensation for purposes of computing benefits or contributions under any other plan of the Company.

(e) The Plan and each Award Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Missouri, County of St. Louis, to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

(f) The Committee shall have full power and authority to interpret the Plan and to make any determinations thereunder, and the Committee's determinations shall be

binding and conclusive. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among individuals, whether or not such individuals are similarly situated.

(g) If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended or limited in scope to conform to applicable laws or, in the discretion of the Committee, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

(h) The Plan was adopted by the Board on March 25, 2002 subject to approval of the stockholders of the Company within 12 months of the date it was adopted. Awards may be granted prior to such approval, but no such Award may be exercised, vested or settled prior to such approval, and if such approval is not obtained, any such Award shall be void ab initio and of no force or effect. If such approval is obtained, no further awards shall be granted under the Stereotaxis, Inc. 1994 Stock Option Plan

(i) Subject to earlier termination pursuant to Section 10, the Plan will terminate on March 25, 2012. Awards outstanding at the termination of the Plan will not be affected by such termination.



## Certification of Principal Executive Officer

I, Bevil J. Hogg, 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 10, 2008

/s/ BEVIL J. HOGG

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Bevil J. Hogg  
Chief Executive Officer  
Stereotaxis, Inc.  
(Principal Executive Officer)

## Certification of Principal Financial Officer

I, James M. Stolze, 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 10, 2008

/s/ JAMES M. STOLZE

James M. Stolze  
Vice President and Chief Financial Officer  
Stereotaxis, Inc.  
(Principal Financial Officer)

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bevil J. Hogg, Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 10, 2008

/s/ BEVIL J. HOGG

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Bevil J. Hogg  
Chief Executive Officer  
Stereotaxis, Inc.

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. Stolze, Vice President and Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 10, 2008

/s/ JAMES M. STOLZE

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James M. Stolze  
Vice President and Chief Financial Officer  
Stereotaxis, Inc.