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

FORM 10-Q

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

For the quarterly period ended June 30, 2007.

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

For the transition period from _____ to _____.

Commission File Number: 000-50884

STEREOTAXIS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

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

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

63108
(Zip Code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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 July 31, 2007 was 36,967,067

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ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.
BALANCE SHEETS

	June 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 26,058,239	\$ 15,210,493
Short-term investments	6,761,286	21,773,288
Accounts receivable, net of allowance of \$117,963 and \$90,716 in 2007 and 2006, respectively	15,365,238	15,280,628
Current portion of long-term receivables	—	163,362
Inventory	8,689,523	8,285,825
Prepaid expenses and other current assets	2,249,335	2,580,773
Total current assets	59,123,621	63,294,369
Property and equipment, net	6,297,530	4,130,295
Intangible assets, net	1,477,778	1,544,444
Long-term receivables	379,486	—
Other assets	322,374	321,552
Total assets	<u>\$ 67,600,789</u>	<u>\$ 69,290,660</u>
Liabilities and stockholders' equity		
Current liabilities:		
Current maturities of long-term debt	\$ 1,000,000	\$ 1,666,666
Accounts payable	5,412,376	5,555,121
Accrued liabilities	8,208,366	10,025,231
Deferred contract revenue	7,060,774	5,663,553
Total current liabilities	21,681,516	22,910,571
Long-term debt, less current maturities	1,472,222	305,556
Long-term deferred contract revenue	1,031,406	1,220,174
Other liabilities	448,915	65,367
Stockholders' equity:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized at 2007 and 2006, none outstanding at 2007 and 2006	—	—
Common stock, par value \$0.001; 100,000,000 shares authorized at 2007, and 2006; 36,927,201 and 34,755,397 issued at 2007 and 2006, respectively	36,927	34,755
Additional paid-in capital	272,596,239	248,908,918
Treasury stock, 40,151 shares at cost at 2007 and 2006, respectively	(205,999)	(205,999)
Accumulated deficit	(229,460,862)	(203,950,839)
Accumulated other comprehensive income	425	2,157
Total stockholders' equity	42,966,730	44,788,992
Total liabilities and stockholders' equity	<u>\$ 67,600,789</u>	<u>\$ 69,290,660</u>

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ending June 30,		Six Months Ending June 30,	
	2007	2006	2007	2006
Revenue				
Systems revenue	\$ 5,771,587	\$ 2,860,101	\$ 12,979,029	\$ 3,842,698
Disposables, service and accessories revenue	2,063,652	953,919	4,017,165	1,703,114
Total revenue	<u>7,835,239</u>	<u>3,814,020</u>	<u>16,996,194</u>	<u>5,545,812</u>
Cost of revenue				
Inventory impairment	1,870,653	—	1,870,653	—
Other cost of revenue	2,472,678	2,182,425	5,723,025	3,414,416
Total cost of revenue	<u>4,343,331</u>	<u>2,182,425</u>	<u>7,593,678</u>	<u>3,414,416</u>
Gross margin	3,491,908	1,631,595	9,402,516	2,131,396
Operating expenses:				
Research and development	7,090,948	5,539,759	12,785,639	11,669,627
General and administration	4,848,888	4,286,408	9,791,830	8,306,152
Sales and marketing	6,986,475	5,715,392	13,066,396	10,588,776
Total operating expenses	<u>18,926,311</u>	<u>15,541,559</u>	<u>35,643,865</u>	<u>30,564,555</u>
Operating loss	(15,434,403)	(13,909,964)	(26,241,349)	(28,433,159)
Interest income	491,103	629,839	873,558	1,110,832
Interest expense	(62,616)	(330,404)	(142,232)	(883,506)
Net loss	<u><u>\$(15,005,916)</u></u>	<u><u>\$(13,610,529)</u></u>	<u><u>\$(25,510,023)</u></u>	<u><u>\$(28,205,833)</u></u>
Net loss per common share:				
Basic and diluted	<u><u>\$ (0.42)</u></u>	<u><u>\$ (0.41)</u></u>	<u><u>\$ (0.72)</u></u>	<u><u>\$ (0.88)</u></u>
Weighted average shares used in computing net loss per common share:				
Basic and diluted	<u><u>36,152,659</u></u>	<u><u>33,221,875</u></u>	<u><u>35,285,931</u></u>	<u><u>32,187,229</u></u>

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	June 30,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$(25,510,023)	\$(28,205,833)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	699,905	575,255
Amortization (accretion)	(84,955)	632,428
Interest receivable from sale of stock	—	48,992
Noncash compensation	2,729,284	2,072,839
Gain on asset disposal	6,043	6,806
Inventory impairment charge	1,870,653	—
Changes in operating assets and liabilities:		
Accounts receivable	(84,610)	(1,329,766)
Interest receivable on investments	163,598	(63,970)
Long-term receivables	(216,124)	134,739
Inventories	(2,274,351)	(2,261,874)
Prepaid expenses and other current assets	331,438	1,767,679
Other assets	(822)	4,824
Accounts payable	(142,745)	(834,243)
Accrued liabilities	(1,816,865)	98,182
Deferred contract revenue	1,208,453	585,486
Other	383,548	(3,797)
Net cash used in operating activities	<u>(22,737,573)</u>	<u>(26,772,253)</u>
Cash flows from investing activities:		
Purchase of equipment	(2,973,823)	(1,905,541)
Sale or disposal of equipment	100,640	10,072
Proceeds from the maturity/sale of available-for-sale investments	22,200,000	8,871,645
Purchase of available-for-sale investments	(7,201,707)	(15,126,967)
Net cash provided by (used in) investing activities	<u>12,125,110</u>	<u>(8,150,791)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	2,000,000	—
Payments under long-term debt	(1,500,000)	(500,000)
Proceeds from issuance of stock and warrants, net of issuance costs	20,960,209	62,875,441
Purchase of treasury stock	—	(43,453)
Payments received on notes receivable from common stock	—	134,700
Net cash provided by financing activities	<u>21,460,209</u>	<u>62,466,688</u>
Net increase in cash and cash equivalents	10,847,746	27,543,644
Cash and cash equivalents at beginning of period	15,210,493	3,598,493
Cash and cash equivalents at end of period	<u>\$ 26,058,239</u>	<u>\$ 31,142,137</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 six month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007 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 13, 2007 for the year ended December 31, 2006.

Recently Adopted Accounting Pronouncements

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

Pending Accounting Pronouncements

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

Revenue Recognition

For arrangements with multiple deliverables, the Company allocates the total revenue to each deliverable based on the provisions of Staff Accounting Bulletin (SAB) 104 and Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, and recognize revenue for each separate element as the criteria are met.

In the second quarter of 2007, the Company determined that installation met the criteria under SAB 104 and EITF Issue No. 00-21 for recognition as a separate element or unit of accounting. Revenue for system sales is recognized upon delivery for the portion of sales price due upon delivery, provided delivery has occurred, title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. The sales price due upon installation (10% or less) is recognized as revenue when the standard installation process is complete. If more than 10% of the sales price is due upon installation, revenue recognition is deferred until the standard installation process is complete. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since these arrangements do not include an installation element or right of return privileges. If uncertainties exist regarding collectability, the Company recognizes revenue when those uncertainties are resolved. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multi-element arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. The Company recognizes revenue from disposable device sales or accessories upon shipment and an appropriate reserve for returns is established. The Company recognizes fees earned on the shipment of product to customers as revenue and recognize costs incurred on the shipment of product to customers as cost of revenue.

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. As of June 30, 2007, the Company had 3,204,897 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$8.38 per share and 510,626 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$8.52 per share. The Company had a weighted average of 682,018 and 679,360 unearned restricted shares excluded from the calculation of net loss per common share for the three and six months ended June 30, 2007, respectively.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board Statement No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), using the modified prospective transition method to account for its grants of stock options, stock appreciation rights, restricted shares and its employee stock purchase plan. SFAS 123(R) 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.

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 one to four years. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated based on the Company's historical experience and future expectations.

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

Restricted shares granted to employees are valued at the fair market value at the date of grant. The Company amortizes the amount to expense over the service period on a straight-line basis. 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.

At June 30, 2007, 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 \$12.5 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 will be adjusted for subsequent changes in estimated forfeitures.

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 the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. At June 30, 2007, the Board of Directors has reserved a total of 4,393,639 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 six months ended June 30, 2007 is as follows:

	<u>Number of Shares</u>	<u>Range of Exercise Price</u>	<u>Weighted Average Exercise Price per Share</u>
Outstanding, December 31, 2006	2,403,507	\$ 0.25-\$12.35	\$ 7.08
Granted	1,033,440	\$ 10.24-\$12.55	\$ 10.65
Exercised	(169,280)	\$ 0.54-\$8.78	\$ 4.28
Forfeited	(62,770)	\$ 0.30-\$12.03	\$ 6.73
Outstanding, June 30, 2007	<u>3,204,897</u>	<u>\$ 0.25-\$12.35</u>	<u>\$ 8.38</u>

A summary of the restricted share grant activity for the six months ended June 30, 2007 is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Grant Price per Share</u>
Outstanding, December 31, 2006	679,544	\$ 9.84
Granted	103,583	\$ 10.81
Vested	(32,755)	\$ 9.83
Forfeited	(40,962)	\$ 9.47
Outstanding, June 30, 2007	<u>709,410</u>	<u>\$ 10.01</u>

A summary of the restricted stock outstanding as of June 30, 2007 is as follows:

	<u>Number of Shares</u>
Time based restricted shares	221,371
Performance based restricted shares	488,039
Outstanding, June 30, 2007	<u>709,410</u>

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Comprehensive Loss

Comprehensive loss for the three-month period ended June 30, 2007 and 2006 was \$(15,005,925) and \$(13,619,940), respectively. Comprehensive loss for the six-month period ended June 30, 2007 and 2006 was \$(25,511,755) and \$(28,218,635), respectively. The only adjustment to net loss in arriving at comprehensive loss is the unrealized gain or loss on investments available for sale.

Investments

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

	June 30, 2007	December 31, 2006
Corporate debt	\$ —	\$ 1,843,988
U.S. government agency	—	9,276,631
Commercial paper	6,260,113	7,559,259
Certificates of deposit	—	2,092,253
Auction rate securities	501,173	1,001,157
Total short-term investments	<u>\$ 6,761,286</u>	<u>\$ 21,773,288</u>

Inventory

Inventory consists of the following:

	June 30, 2007	December 31, 2006
Raw materials	\$ 2,397,548	\$2,501,312
Work in process	139,466	29,443
Finished goods	8,406,759	5,966,525
Reserve for impairment and obsolescence	(2,254,250)	(211,455)
Total inventory	<u>\$ 8,689,523</u>	<u>\$8,285,825</u>

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Property and Equipment

Property and equipment consist of the following:

	June 30, 2007	December 31, 2006
Equipment	\$ 7,988,530	\$ 5,307,519
Equipment held for lease	303,412	303,412
Leasehold improvements	1,484,930	1,309,715
	9,776,872	6,920,646
Less accumulated depreciation	(3,479,342)	(2,790,351)
Total property and equipment, net	<u>\$ 6,297,530</u>	<u>\$ 4,130,295</u>

Equipment held for lease consists of medical equipment provided to customers under operating lease arrangements where the Company is the lessor.

Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2007	December 31, 2006
Accrued salaries, bonus and benefits	\$ 3,788,063	\$ 3,495,023
Accrued research and development	2,142,051	3,471,094
Accrued legal and other professional fees	592,396	323,224
Other	1,685,856	2,735,890
Total accrued liabilities	<u>\$ 8,208,366</u>	<u>\$ 10,025,231</u>

Line of Credit

In March 2007, the Company amended its credit agreement with its primary lending bank. The amended agreement retained substantially all of the same terms and conditions as the agreement in place at December 31, 2006, but increased the maximum borrowing capacity to \$25 million, an increase of \$15 million, and provided for an additional \$2 million in equipment advances. In the event the Company's quick asset ratio (as defined in the agreement) falls below 1.75 to 1, the Company would also be required to maintain certain operating performance measures. The maturity date of the revolving line of credit was extended to March 2009 and the interest rate was adjusted to the lender's prime rate plus either 0.25% or 0.75%, depending on a defined liquidity measure. The \$2 million equipment loan was drawn in June 2007. As of June 30, 2007 the Company is in compliance with all covenants of this agreement.

Stockholders' Equity

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

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 these transactions, 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 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.

During the quarter ended June 30, 2006, the Company expensed approximately \$237,000 related to a warranty obligation for a system installed at a hospital whose President and Chief Executive Officer is a member of our Board of Directors.

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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.

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, 2006. 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 below under Part II – Item 1A “Risk Factors” and in our Annual Report on Form 10-K for the year ended December 31, 2006. 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 and coronary artery disease. The Stereotaxis System is designed to enable physicians to complete more complex interventional procedures by providing image guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures and reduced x-ray exposure. The core components of the Stereotaxis System have received regulatory clearance in the U.S., Canada and Europe.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. We review our estimates and judgments on an on-going basis. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We believe the following accounting policies are critical to the judgments and estimates we use in preparing our financial statements. For a complete listing of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2006.

Our accounting policy for income taxes was recently modified due to the adoption of FIN 48. In June 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain tax positions. FIN 48 is effective for us beginning January 1, 2007. The adoption of FIN 48 did not have an impact on our financial position or results of operations.

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

Revenue Recognition

For arrangements with multiple deliverables, we allocate the total revenue to each deliverable based on the provisions of Staff Accounting Bulletin (SAB) 104 and Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, and recognize revenue for each separate element as the criteria are met.

In the second quarter of 2007, we determined that installation met the criteria under SAB 104 and EITF Issue No. 00-21 for recognition as a separate element or unit of accounting. Revenue for system sales is recognized upon delivery for the portion of sales price due upon delivery, provided delivery has occurred, title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. The sales price due upon installation (10% or less) is recognized as revenue when the standard installation process is complete. If more than 10% of the sales price is due upon installation, revenue recognition is deferred until the standard installation process is complete. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since these arrangements do not include an installation element or right of return privileges. If uncertainties exist regarding collectability, we recognize revenue when those uncertainties are resolved. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multi-element arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and an appropriate reserve for returns is established. We recognize fees earned on the shipment of product to customers as revenue and recognize costs incurred on the shipment of product to customers as cost of revenue.

Results of Operations

Comparison of the Three Months Ended June 30, 2007 and 2006

Revenue. Revenue increased to \$7.8 million for the three months ended June 30, 2007 from \$3.8 million for the three months ended June 30, 2006, an increase of approximately 105%. Revenue from the sale of systems increased from \$2.9 million to \$5.8 million, an increase of approximately 102% because of an increase in the number of systems delivered from three to five. Revenue from sales of disposable interventional devices, service and accessories increased to \$2.1 million for the three months ended June 30, 2007 from approximately \$954,000 for the three months ended June 30, 2006, an increase of approximately 116%. This increase was principally attributable to the increased base of installed systems.

Purchase orders and other commitments for our magnetic navigation system were approximately \$55 million at June 30, 2007. 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 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 increased to \$4.3 million for the three months ended June 30, 2007 from \$2.2 million for the three months ended June 30, 2006, an increase of approximately 99%. This increase was in part due to the increased number of systems sold. Cost of sales for the quarter ended June 30, 2007 also includes a \$1.9 million impairment charge to the carrying value of the first generation Niobe 1 systems remaining in inventory.

Research and Development Expenses. Research and development expenses increased to \$7.1 million for the three months ended June 30, 2007 from \$5.5 million for the three months ended June 30, 2006, an increase of approximately 28%. The increase was due principally to an increase in expenses related to the 8mm and irrigated catheter development and other research and development projects.

General and Administrative Expenses. General and administrative expenses increased to \$4.8 million for the three months ended June 30, 2007 from \$4.3 million for the three months ended June 30, 2006, an increase of approximately 13%. The increase was due primarily to increased headcount and compensation costs.

Sales and Marketing Expenses. Sales and marketing expenses increased to approximately \$7.0 million for the three months ended June 30, 2007 from \$5.7 million for the three months ended June 30, 2006, an increase of approximately 22%. The increase related primarily to increased salary, benefits and travel expenses associated with expanded sales headcount.

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Interest Income. Interest income decreased to \$491,000 for the three months ended June 30, 2007 from \$630,000 for the three months ended June 30, 2006, a decrease of approximately 22% due to lower invested balances.

Interest Expense. Interest expense decreased approximately 81% to \$63,000 for the three months ended June 30, 2007 from \$330,000 for the three months ended June 30, 2006 primarily due to the amortization of warrant expense during 2006 related to the affiliate line of credit.

Comparison of the Six Months Ended June 30, 2007 and 2006

Revenue. Revenue increased to \$17.0 million for the six months ended June 30, 2007 from \$5.5 million for the six months ended June 30, 2006, an increase of approximately 206%. Revenue from the sale of systems increased to \$13 million from \$3.8 million, an increase of approximately 238%, because of an increase in the number of systems delivered from four to eleven. Revenue from sales of disposable interventional devices, service and accessories increased to \$4.0 million for the six months ended June 30, 2007 from \$1.7 million for the six months ended June 30, 2006, an increase of approximately 136%. This increase was principally attributable to the increased base of installed systems.

Cost of Revenue. Cost of revenue increased to \$7.6 million for the six months ended June 30, 2007 from \$3.4 million for the six months ended June 30, 2006, an increase of approximately 122%. This increase was due in part to the increased number of systems sold. Cost of sales for the 2007 period also includes a \$1.9 million impairment charge to the carrying value of the first generation Niobe systems remaining in inventory.

Research and Development Expenses. Research and development expenses increased to \$12.8 million for the six months ended June 30, 2007 from \$11.7 million for the six months ended June 30, 2006, an increase of approximately 10%. The increase was due principally to an increase in expenses related to the 8mm and irrigated catheter development and other research and development projects.

General and Administrative Expenses. General and administrative expenses increased to \$9.8 million for the six months ended June 30, 2007 from \$8.3 million for the six months ended June 30, 2006, an increase of approximately 18%. The increase was due primarily to expanded activity in clinical affairs and training and increased compensation costs.

Sales and Marketing Expenses. Sales and marketing expenses increased to \$13.1 million for the six months ended June 30, 2007 from \$10.6 million for the six months ended June 30, 2006, an increase of approximately 23%. The increase related primarily to increased salary, benefits and travel expenses associated with expanded sales headcount.

Interest Income. Interest income decreased to \$874,000 for the six months ended June 30, 2007 from \$1.1 million for the six months ended June 30, 2006, a decrease of approximately 21% due to lower invested balances.

Interest Expense. Interest expense decreased approximately 84% to \$142,000 for the six months ended June 30, 2007 from \$884,000 for the six months ended June 30, 2006 primarily due to the amortization of warrant expense during 2006 related to the affiliate line of credit.

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 \$6.8 million of investments in commercial paper and auction rate securities at June 30, 2007 and \$21.8 million of investments in corporate debt securities, U.S. government agency notes, commercial paper, certificates of deposit and auction rate securities at December 31, 2006. At June 30, 2007, we had working capital of approximately \$37.4 million, compared to \$40.4 million at December 31, 2006.

The following table summarizes our cash flow by operating, investing and financing activities for each of six month periods ended June 30, 2007 and 2006 (in thousands):

	Six Months Ended June 30,	
	2007	2006
Cash flow used in operating activities	\$(22,738)	\$(26,772)
Cash flow provided by (used in) investing activities	12,125	(8,151)
Cash flow provided by financing activities	21,460	62,467

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Net cash used in operating activities. We used approximately \$22.7 million and \$26.8 million of cash for operating activities during the six months ended June 30, 2007 and 2006, respectively, primarily as a result of operations during these periods. Cash used to fund operating assets and liabilities was \$2.4 million and \$1.9 million during the six months ended June 30, 2007 and June 30, 2006, respectively.

Net cash provided by (used in) investing activities. We generated approximately \$12.1 million of cash from investing activities during the six months ended June 30, 2007, principally from the maturity of investments. During the six months ended June 30, 2006, we used approximately \$8.2 million of cash, substantially for the purchase of investments. We used approximately \$3.0 million and \$1.9 million of cash for the purchase of equipment during the six months ended June 30, 2007 and 2006, respectively.

Net cash provided by financing activities. We generated approximately \$21.5 million from financing activities during the six months ended June 30, 2007 primarily from the proceeds of our common stock offering in the first quarter of 2007. We drew \$2 million under our equipment line and repaid amounts drawn under our working capital line and scheduled amounts due under older equipment loans. We generated approximately \$62.5 million from financing activities during the six months ended June 30, 2006, primarily from the proceeds of our common stock offering.

In March 2007, we entered into a loan modification agreement with our primary lender to increase the maximum borrowing capacity from \$10 million to \$25 million. In addition, this agreement provided for an additional \$2 million in equipment advances which was drawn in June 2007. The maturity date of the revolving line of credit under the loan agreement was extended to March 2009 and the interest rate will be calculated at the lender's prime rate plus either 0.25% or 0.75%, depending on a defined liquidity measure. These loan agreements are secured by substantially all of our assets. The loan agreements include customary affirmative, negative and financial covenants. For example, we are restricted from incurring additional debt, disposing of or pledging our assets, entering into merger or acquisition agreements, making certain investments, allowing fundamental changes to our business, ownership, management or business locations, and from making certain payments in respect of stock or other ownership interests, such as dividends and stock repurchases. In the event our quick asset ratio (as defined in the agreement) falls below 1.75 to 1, we would be required to meet certain operating performance covenants. 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 June 30, 2007, we had no outstanding amounts due under our working capital line of credit resulting in an unused line of approximately \$25.0 million with borrowing capacity of approximately \$13.3 million, secured by qualifying receivables and inventory balances. As of June 30, 2007, we had aggregate outstanding balances of approximately \$2.5 million under our two equipment loan agreements. As of June 30, 2007, we were in compliance with all covenants of this agreement.

In November 2005, we entered into a six-month commitment with certain affiliates providing for the availability of up to \$20.0 million in unsecured borrowings. This commitment was available to be drawn against at any time through May 10, 2006, the initial six-month commitment period. The commitment period, as well as the maturity date on any funds drawn under the commitment, was subject to one six-month extension, through November 2006, at our sole election. The lenders received five-year warrants to purchase shares of our common stock upon commitment of the funds. We did not draw funds under this agreement nor did we extend the commitment period beyond its May 2006 expiration.

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

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. Although we have no immediate plans to raise additional capital, we believe the shelf registration affords us the financial flexibility to react to future opportunities in the market. 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 the sales of the underlying shares.

We expect to have negative cash flow from operations through 2007. We expect to continue the development and commercialization of our products, the continuation of our research and development programs and the advancement of new products into clinical development. We expect that total operating expenses for the year will increase approximately 20%

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over 2006 expenditures as we continue to increase our direct sales and marketing efforts and strengthen our training capabilities in support of our targeted system order growth. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with existing cash resources that were primarily generated from the proceeds of our public offerings, private sales of our equity securities and working capital and equipment financing loans. In the future, we may finance future cash needs through the sale of other equity securities, strategic collaboration agreements and debt financings. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors outside of our control.

While we believe our existing cash, cash equivalents and investments and available bank lines will be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months, we cannot assure you that we will not require additional financing before that time. We also cannot assure you that such additional financing will be available on a timely basis on terms acceptable to us or at all, or that such financing will not be dilutive to our stockholders. If adequate funds are not available to us, we could be required to delay development or commercialization of new products, to license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize ourselves or to reduce the 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. 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 exchange rate were to fluctuate by 10%, we believe that our revenues could be affected by as much as 2 to 3%.

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

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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 provided reasonable assurance that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in reports that it files or submits under the Exchange Act.

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

There have been no material changes to our risk factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006 (as filed with the SEC on March 13, 2007).

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

At the Annual Meeting of Stockholders held on May 24, 2007 the stockholders of Stereotaxis, Inc. elected Bevil J. Hogg, Fred A. Middleton, William M. Kelley and William C. Mills, III to the Board of Directors of the Company to terms expiring at the Annual Meeting of Stockholders in the year 2010. The following table sets forth the votes for each director:

	<u>Votes For</u>	<u>Withheld</u>
Bevil J. Hogg	31,227,032	65,041
William M. Kelley	30,952,174	339,899
Fred A. Middleton	31,063,348	228,725
William C. Mills, III	30,931,788	360,285

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After the meeting, our Board of Directors consisted of the individuals listed above plus Abhi Acharya, Christopher Alafi, David W. Benfer, Ralph G. Dacey, Jr., Gregory R. Johnson, Abhijeet J. Lele, Robert J. Messey and Eric N. Prystowsky.

At the Annual Meeting of Stockholders, the stockholders approved an amendment to the Company's 2002 Stock Incentive Plan to increase the number of shares reserved for issuance thereunder by 1,000,000 shares and approve the plan for IRS Rule 162(m) purposes. The proposal received 22,313,314 votes "for" ratification, 1,035,116 "against" ratification and 107,062 shares abstained.

At the Annual Meeting of Stockholders, the stockholders ratified the appointment of Ernst & Young, LLP as the Company's independent registered public accountants to examine the financial statements of the Company for the 2007 fiscal year. The proposal received 31,104,118 votes "for" ratification, 95,568 "against" ratification and 92,387 shares abstained.

Total shares eligible to vote at the Annual Meeting were 36,806,643.

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: August 9, 2007

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

Date: August 9, 2007

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*	Alliance Expansion Agreement, dated May 4, 2007 between Biosense Webster, Inc. and Stereotaxis, Inc.
10.2	Stereotaxis, Inc. 2002 Stock Incentive Plan, as amended May 24, 2007.
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)

- (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.
- * Confidential treatment requested as to certain portions, which portions are omitted and filed separately with the Securities and Exchange Commission.

[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.]

ALLIANCE EXPANSION AGREEMENT

This agreement (the “Alliance Expansion Agreement”) is made this 4th day of May, 2007 to the Development Alliance and Supply Agreement of May 7, 2002 as amended pursuant to the Amendment to Development and Supply Agreement of 3 November, 2003), (the “Alliance”) between Biosense Webster, Inc. (“Biosense Webster”) and Stereotaxis, Inc. (“Stereotaxis”).

RECITALS

WHEREAS, pursuant to the Alliance the parties have successfully co-developed and commercialized 4mm thermocouple RF mapping and ablation catheters that they believe are providing compelling therapeutic solutions for certain major disease states in electrophysiology. These 4mm catheters include devices incorporating Biosense’s proprietary catheter technology and Stereotaxis unique proprietary magnetic navigation technology, and also devices that additionally incorporate Biosense’s unique proprietary 3D catheter location sensing (“localizing”) technology; and

WHEREAS, pursuant to the Alliance the parties are co-developing and commercializing a range of additional mapping and ablation catheters; and

WHEREAS, the parties desire to extend for a period approximating two years their Alliance specifically regarding development and commercialization of catheters they believe have significant potential to become a new standard of care for complex ablations, which comprise magnetically navigable catheters incorporating Biosense’s unique proprietary open irrigation intellectual property and technology. These include a magnetically navigable open irrigation catheter (a Partnered NL Catheter), and a magnetically navigable open irrigation catheter that additionally incorporates Biosense’s localizing technology (a Daughter Product) (together, the “Magnetic Irrigation Catheters”); and

WHEREAS the parties also desire to evaluate additional potential collaborations regarding their technologies.

NOW, THEREFORE the parties agree as follows:

1. Interpretation. Terms and definitions used in the Alliance will have the same meaning in this Alliance Expansion Agreement unless otherwise indicated. References to this Alliance Expansion Agreement or provisions hereof also include references to the terms of the Alliance, which are incorporated herein by reference. Unless expressly amended herein, the Alliance remains in full force and effect. In the event of conflict between this Alliance Expansion Agreement and the Alliance, Development Alliance and Supply Agreement of May 7, 2002 as amended pursuant to the Amendment to Development and Supply Agreement of 3 November, 2003, this Alliance Expansion Agreement will control.
2. For the avoidance of doubt only, and without limitation, references in the Alliance to Partnered NL Catheters and Daughter Products will include Magnetic Irrigation Catheters of each.
3. Except as set forth in Section 5(i) below, the Term and the Amendment Exclusivity Period related to Daughter Products and Partnered NL Catheters will expire on December 31, 2009. For the avoidance of doubt, such expiration dates will apply only with respect to such disposable devices and not with respect to Compatible CARTO Systems, Compatible NIOBE Systems or other relevant systems that are subject to the terms of the Alliance.
4. The aggregate Revenue Share for all Daughter Products and Partnered NL Catheters, including without limitation the Magnetic Irrigation Catheters, will be increased by * beginning April 1, 2007 and thereafter during any period in which any such catheters are distributed pursuant to the Alliance (as amended by this Alliance Expansion Agreement).

5. Provisions related solely to Magnetic Irrigation Catheters:
 - (i) The Term and the Amendment Exclusivity Period related to Magnetic Irrigation Catheters and open irrigation catheter technology only will expire on December 31, 2011.
 - (ii) Without limitation, the period for continuity of distribution of the Magnetic Irrigation Catheters only, following termination or expiration of the Alliance, as set forth in Section 11.2 of the Amendment to Development and Supply Agreement of 3 November, 2003, will become operative on December 31, 2011.
 - (iii) Without limitation, both parties will carry out their obligations regarding development and commercialization of the Magnetic Irrigation Catheters in a commercially reasonable manner, and based on such resource allocations as are reasonably necessary to achieve the same; and
 - (iv) Additional to the provisions set forth in Section 3 above, the Revenue Share in respect of the Magnetic Irrigation Catheters that will be applicable during * will be increased by *.
6. The maximum aggregate Revenue Share calculated in accordance with Section 7 of the Development Alliance and Supply Agreement of May 7, 2002 (computed as if all contingencies and conditions favorable to Stereotaxis set forth in such Section were met) and in accordance with Section 4 of the Amendment to Development and Supply Agreement of 3 November, 2003 (computed as if all contingencies and conditions favorable to Stereotaxis set forth in such Section were met) is not affected by the provisions of Sections 4 and 5(iv) above.
7. Without limitation to Section 5 above, and for the avoidance of doubt, any calculations of Stereotaxis' Revenue Share will be made on the basis that the incremental Revenue Share set forth in Section 7 of the Development Alliance and Supply Agreement of May 7, 2002 will apply following the sixth anniversary of the execution of such agreement and thereafter during any period in which any Daughter Product or Partnered NL Catheter is distributed pursuant to the Alliance (as amended by this Alliance Expansion Agreement).
8. The parties will evaluate in a commercially reasonable manner the potential for additional collaborations (which may be exclusive or non-exclusive) in the fields of:
 - (i) Angiogenesis for cardiology. The parties intend to consider existing demand in the angiogenesis research and development market for precise, predictable and repeatable delivery of biologics (including without limitation stem cells, growth factors and gene therapy biologics) to targeted cardiovascular tissue for applications that may include (a) regeneration at areas of necrotic heart tissue in chronic heart failure patients and (b) enhancing perfusion in patients with moderate to severe ischemic heart disease. The parties also wish to assess the potential significance of their combined technologies in light of the regulatory requirement from FDA that an application for the delivery of biologics for such angiogenesis will only be considered in conjunction with or following the clearance and/or approval of the delivery device to be used; and
 - (ii) Vascular navigation and associated applications for cardiology.
9. IN WITNESS WHEREOF, the Parties hereto have caused this Alliance Expansion Agreement to be signed by duly authorized officers or representatives.

/s/ URI YARON

Biosense Webster, Inc. by
Uri Yaron, Senior Director, Worldwide New Business Development

/s/ BEVIL HOGG

Stereotaxis, Inc. by
Bevil Hogg, Chief Executive Officer

STEREOTAXIS, INC.
2002 STOCK INCENTIVE PLAN

As Amended and Restated effective May 24, 2007

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

(e) "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.

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

(g) "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.

(h) “*Fiscal Year*”—The fiscal year of the Company, as the same may be changed from time to time.

(i) “*Incentive Stock Option*”—A stock option intended to meet the requirements of Section 422 of the Code and the regulations thereunder.

(j) “*Nonqualified Stock Option*”—A stock option which is not an Incentive Stock Option.

(k) “*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).

(l) “*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.

(m) “*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 7,110,998.¹ 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

¹ The shares available include (i) the 1,000,000 share increase as approved by the stockholders on May 24, 2007, (ii) the shares originally included in the Plan and that were available under the Stereotaxis, Inc. 1994 Stock Option Plan, and (iii) 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.

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 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 shall be not less than 100% of Fair Market Value on the date of grant and the exercise price of Nonqualified Stock Options shall be not less than 85% of Fair Market Value on the date of grant. No individual may be granted options to purchase more than 277,777 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 if performance or other goals are achieved over specified Performance Periods.

(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 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. 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: August 9, 2007

/s/ BEVIL J. HOGG

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: August 9, 2007

/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 June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bevil J. Hogg, Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 9, 2007

/s/ BEVIL J. HOGG

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, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. Stolze, Vice President and Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 9, 2007

/s/ JAMES M. STOLZE

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