
**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, 2010.

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 August 2, 2010 was 50,372,024.

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ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.
BALANCE SHEETS

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,014,249	\$ 30,546,550
Accounts receivable, net of allowance of \$294,368 and \$322,463 in 2010 and 2009, respectively	14,147,775	11,152,648
Current portion of long-term receivables	63,800	66,800
Inventories	4,272,702	4,403,675
Prepaid expenses and other current assets	3,024,675	3,872,535
Total current assets	43,523,201	50,042,208
Property and equipment, net	4,445,477	4,790,310
Intangible assets, net	2,742,778	1,144,445
Long-term receivables	146,425	138,441
Other assets	5,112	5,112
Total assets	<u>\$ 50,862,993</u>	<u>\$ 56,120,516</u>
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt and current maturities of long-term debt	\$ 19,499,999	\$ 3,333,333
Accounts payable	5,766,991	3,881,205
Accrued liabilities	7,698,627	8,615,287
Deferred revenue	7,606,228	7,191,492
Warrants	3,172,562	4,142,614
Total current liabilities	43,744,407	27,163,931
Long-term debt, less current maturities	7,154,045	20,346,655
Long-term deferred revenue	789,381	948,574
Other liabilities	14,134	20,013
Stockholders' equity:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized at 2010 and 2009, none outstanding at 2010 and 2009	—	—
Common stock, par value \$0.001; 100,000,000 shares authorized at 2010 and 2009, 50,356,233 and 50,208,171 shares issued at 2010 and 2009, respectively	50,356	50,208
Additional paid in capital	335,058,197	331,249,918
Treasury stock, 40,151 shares at 2010 and 2009	(205,999)	(205,999)
Accumulated deficit	(335,741,528)	(323,452,784)
Total stockholders' equity (deficit)	(838,974)	7,641,343
Total liabilities and stockholders' equity	<u>\$ 50,862,993</u>	<u>\$ 56,120,516</u>

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenue:				
Systems	\$ 9,439,857	\$ 8,162,504	\$ 14,673,611	\$ 15,023,312
Disposables, service and accessories	5,578,221	4,481,833	10,961,076	8,754,162
Total revenue	<u>15,018,078</u>	<u>12,644,337</u>	<u>25,634,687</u>	<u>23,777,474</u>
Cost of revenue:				
Systems	4,313,774	3,212,031	6,390,490	5,775,513
Disposables, service and accessories	612,379	1,453,854	1,456,332	2,351,052
Total cost of revenue	<u>4,926,153</u>	<u>4,665,885</u>	<u>7,846,822</u>	<u>8,126,565</u>
Gross margin	<u>10,091,925</u>	<u>7,978,452</u>	<u>17,787,865</u>	<u>15,650,909</u>
Operating expenses:				
Research and development	3,358,008	3,636,007	6,727,546	6,945,870
Sales and marketing	8,446,612	7,680,549	15,141,730	15,133,984
General and administrative	3,976,057	3,314,678	7,866,394	7,352,843
Total operating expenses	<u>15,780,677</u>	<u>14,631,234</u>	<u>29,735,670</u>	<u>29,432,697</u>
Operating loss	<u>(5,688,752)</u>	<u>(6,652,782)</u>	<u>(11,947,805)</u>	<u>(13,781,788)</u>
Other income	2,507,221	304,709	970,052	555,646
Interest income	2,148	4,376	4,930	31,349
Interest expense	(682,804)	(1,096,080)	(1,315,921)	(1,775,071)
Net loss	<u>\$ (3,862,187)</u>	<u>\$ (7,439,777)</u>	<u>\$ (12,288,744)</u>	<u>\$ (14,969,864)</u>
Net loss per common share:				
Basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.18)</u>	<u>\$ (0.25)</u>	<u>\$ (0.36)</u>
Weighted average shares used in computing net loss per common share:				
Basic and diluted	<u>49,885,589</u>	<u>41,670,130</u>	<u>49,753,046</u>	<u>41,476,704</u>

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Net loss	\$(12,288,744)	\$(14,969,864)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	926,511	1,128,860
Amortization	66,667	66,667
Amortization of warrants	621,348	674,575
Share-based compensation	751,876	2,608,500
Loss on asset disposal	4,556	551,559
Non-cash royalty (income), net	(1,628,842)	(833,582)
Warrant adjustment	(970,052)	(555,646)
Changes in operating assets and liabilities:		
Accounts receivable	(2,995,127)	(2,212,230)
Other receivables	(4,984)	13,443
Inventories	93,698	796,181
Prepaid expenses and other current assets	643,079	180,572
Other assets	—	73,750
Accounts payable	1,885,786	(282,417)
Accrued liabilities	(489,064)	(1,324,548)
Deferred revenue	255,543	(1,970,205)
Other liabilities	(5,879)	(11,588)
Net cash used in operating activities	(13,133,628)	(16,065,973)
Cash flows from investing activities		
Purchase of equipment	(548,959)	(1,246,403)
Net cash used in investing activities	(548,959)	(1,246,403)
Cash flows from financing activities		
Proceeds from revolving line of credit	25,500,000	—
Payments of revolving line of credit	(20,333,334)	(333,331)
Payments of long-term debt	(563,768)	—
Proceeds from issuance of stock and warrants, net of issuance costs	547,388	69,631
Net cash provided by (used in) financing activities	5,150,286	(263,700)
Net decrease in cash and cash equivalents	(8,532,301)	(17,576,076)
Cash and cash equivalents at beginning of period	30,546,550	30,355,657
Cash and cash equivalents at end of period	<u>\$ 22,014,249</u>	<u>\$ 12,779,581</u>

See accompanying notes.

STEREOTAXIS, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Notes to Financial Statements

1. 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, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010 or for future operating periods.

These interim financial statements and the related notes should be read in conjunction with the annual financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission (the "SEC") on March 15, 2010.

2. Summary of Significant Accounting Policies

Revenue and Costs of Revenue

For arrangements with multiple deliverables, the Company allocates the total revenue to each deliverable based on the provisions of general accounting principles for revenue recognition and multiple-deliverable revenue arrangements and recognizes revenue for each separate element as the criteria for revenue recognition are met. Each element is assigned an estimated selling price using vendor-specific objective evidence, third party evidence, or management's estimate.

Under our revenue recognition policy, a portion of revenue for NIOBE[®] systems is recognized upon delivery, provided that title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. Beginning in the quarter ended March 31, 2010, revenue for certain ODYSSEY[™] VISION systems was recognized upon delivery due to the fact that third parties became qualified to perform installations. However, this change did not have a material impact on revenue recognition for the three months ended March 31, 2010. Beginning in the quarter ended June 30, 2010, revenue for the remaining types of ODYSSEY VISION systems was recognized upon delivery due to the fact that third parties became qualified to perform installations. This change resulted in additional revenue of \$1.2 million and additional gross margin of \$0.6 million during the quarter ended June 30, 2010. Revenue is recognized for other types of ODYSSEY systems upon completion of installation, since there are no qualified third party installers. We may deliver systems to a non-hospital site at the customer's request. We evaluate whether delivery has occurred considering general accounting principles for revenue recognition with respect to "bill and hold" transactions. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue.

Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multiple-deliverable arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and establish an appropriate reserve for returns. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimis effect on revenue recognized in the period. We believe that the estimate is not likely to change significantly in the future.

Costs of systems revenue include direct product costs, installation labor and other costs, estimated warranty costs, and initial training and product maintenance costs. These costs are recorded at the time of sale. Costs of disposable revenue include direct product costs and 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 and diluted 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. The largest adjustment between the shares outstanding at June 30, 2010 and the weighted average shares used for calculating basic earnings per share for the quarter ended June 30, 2010 is the deduction of unearned restricted shares, which amounted to 296,012 at June 30, 2010. This amount is primarily comprised of 252,000 performance-based shares that are outstanding at June 30, 2010, but for which the performance conditions are not expected to be met. In addition, the Company did not include any portion of unearned restricted shares, outstanding options, stock appreciation rights or warrants in the calculation of diluted loss per common share because all such securities are anti-dilutive for all periods presented. The application of the two-class method of computing earnings per share under general accounting principles for participating securities is not applicable because the Company's unearned restricted shares do not contractually participate in its losses.

STEREOTAXIS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)
(Unaudited)

As of June 30, 2010, the Company had 5,152,718 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$6.26 per share and 9,623,711 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$4.26 per share. The Company had a weighted average of 562,345 and 590,217 unearned restricted shares for the three and six months ended June 30, 2010.

Fair Value Measurements

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

The Company’s financial assets consist of cash equivalents invested in money market funds in the amount of \$3,088,042 and \$27,239,083 at June 30, 2010 and December 31, 2009, respectively. These assets are classified as Level 1 as described above and total interest income recorded for these investments was approximately \$2,100 and \$4,900 during the three and six month periods ended June 30, 2010. There were no transfers in or out of Level 1 during the three and six month periods ended June 30, 2010.

The Company’s financial liabilities consist of warrants in the amount of \$3,172,562 at June 30, 2010. These liabilities are classified as Level 3 as described above and are measured using a Monte Carlo valuation model. The mark-to-market adjustment recorded in other income for these warrants was \$2,507,221 and \$970,052 during the three and six month periods ended June 30, 2010. There were no purchases, sales, issuances, transfers, or settlements of Level 3 financial instruments during the three and six month periods ended June 30, 2010. These warrants were transferred into Level 3 on January 1, 2009 based on the adoption of general accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity’s own stock. See Note 11 for additional details.

Fair Value – Other Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for other financial instruments as of June 30, 2010 and December 31, 2009.

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses have carrying values which approximate fair value due to the short maturity or the financial nature of these instruments.

Long and short-term debt fair value estimates are based on estimated borrowing rates to discount the cash flows to their present value. See Note 9 for disclosure of the fair value of debt.

Share-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 general accounting principles for share-based payments. These accounting principles require the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the requisite service period.

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 records 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.

STEREOTAXIS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Recently Issued Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update 2010-06 (“ASU 2010-06”), which is an amendment to the Fair Value Measurements and Disclosures topic of the Accounting Standards Codification. This amendment requires disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This amendment is effective for periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements, which will be effective for fiscal years beginning after December 15, 2010. See “Fair Value Measurements” section of Note 2 for required disclosures.

3. Inventory

Inventory consists of the following:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Raw materials	\$2,211,730	\$1,785,908
Work in process	421,070	312,797
Finished goods	2,254,832	3,117,438
Reserve for obsolescence	<u>(614,930)</u>	<u>(812,468)</u>
Total inventory	<u>\$4,272,702</u>	<u>\$4,403,675</u>

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Prepaid expenses	\$ 295,353	\$ 733,966
Deferred cost of revenue	1,053,271	960,145
Other assets	<u>1,676,051</u>	<u>2,178,424</u>
Total prepaid expenses and other current assets	<u>\$3,024,675</u>	<u>\$3,872,535</u>

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

5. Property and Equipment

Property and equipment consist of the following:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Equipment	\$ 9,013,311	\$ 8,541,355
Equipment held for lease	547,416	547,416
Leasehold improvements	<u>2,400,789</u>	<u>2,317,753</u>
	11,961,516	11,406,524
Less: Accumulated depreciation	<u>(7,516,039)</u>	<u>(6,616,214)</u>
Net property and equipment	<u>\$ 4,445,477</u>	<u>\$ 4,790,310</u>

STEREOTAXIS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)
(Unaudited)

6. Intangible Assets

On June 4, 2010, the Company entered into an agreement to issue 450,000 shares of its common stock to a consultant (the “Purchaser”) in exchange for intellectual property rights related to the Company’s products. The Company issued 200,000 shares upon execution of the agreement and will issue an aggregate of 250,000 shares in annual installments on the first three anniversaries of the agreement. The unissued shares meet the criteria for equity classification under Accounting Standards Codification 480 Distinguishing Liabilities from Equity and therefore, are recorded in additional paid-in capital. There was no cash consideration paid for the securities. The securities were issued in consideration of the assignment to the Company of the Purchaser’s rights in certain intellectual property, including patent applications, in all inventions and discoveries in the Company’s business field (as defined in the agreement) that had been developed under various other agreements, which were terminated. The securities were sold by the Company in a private placement exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder. There were no underwriters or placement agents involved in the transaction.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Accrued salaries, bonus, and benefits	\$4,774,355	\$5,160,246
Accrued research and development	42,217	140,284
Accrued legal and other professional fees	184,317	539,651
Other	2,697,738	2,775,106
Total accrued liabilities	<u>\$7,698,627</u>	<u>\$8,615,287</u>

8. Deferred Revenue

Deferred revenue consists of the following:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Product shipped, revenue deferred	\$ 526,995	\$1,898,701
Customer deposits	1,878,353	1,022,476
Deferred service and license fees	5,990,261	5,218,889
	8,395,609	8,140,066
Less: Long-term deferred revenue	(789,381)	(948,574)
Total current deferred revenue	<u>\$7,606,228</u>	<u>\$7,191,492</u>

9. Long-Term Debt and Credit Facilities

Debt outstanding consists of the following:

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Revolving credit agreement, due March 2011	\$ 15,499,999	\$ 15,738,504	\$10,000,000	\$10,261,547
June 2007 term note, matured June 2010	—	—	333,334	334,243
Biosense Webster Advance	11,154,045	11,377,664	13,346,654	13,683,595
Total debt	26,654,044	27,116,168	23,679,988	24,279,385
Less current maturities	(19,499,999)	(19,818,697)	(3,333,333)	(3,359,455)
Total long term debt	<u>\$ 7,154,045</u>	<u>\$ 7,297,471</u>	<u>\$20,346,655</u>	<u>\$20,919,930</u>

STEREOTAXIS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Revolving line of credit

In December 2009, the Company amended its agreement with its primary lender to extend the maturity of the current working capital line of credit from March 31, 2010 to March 31, 2011 and to increase the total availability under the line from \$25 million to \$30 million, retaining the \$10 million sublimit for borrowings supported by guarantees from stockholders who are affiliates of two members of its board of directors (“Lenders”) and considered to be related parties. Under the revised facility the Company is required to maintain a minimum “tangible net worth” as defined in the agreement. Interest on the facility accrues at the rate of prime plus 0.5% subject to a floor of 6% for the amount under guarantee and prime plus 1.75% subject to a floor of 7% for the remaining amounts.

As of June 30, 2010, the Company had \$15.5 million outstanding under the revolving line of credit and a current borrowing capacity of \$19.8 million based on the Company’s collateralized assets, including amounts already drawn. As such, the Company had the ability to borrow an additional \$4.3 million under the revolving line of credit at June 30, 2010. As of June 30, 2010, the Company was in compliance with all covenants of the bank loan agreement and had no remaining availability on its Lender loan and guarantee.

The revolving line of credit is secured by substantially all of the Company’s assets. The Company is also required under the revolving line of credit to maintain its primary operating account and the majority of its cash and investment balances in accounts with the primary lender.

Term note

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

Biosense Webster Advance

In July 2008, the Company and Biosense Webster entered into an amendment to their existing agreements relating to the development and sale of catheters. Pursuant to the amendment, Biosense Webster agreed to pay to the Company \$10.0 million as an advance on royalty amounts that were owed at the time the amendment was executed or would be owed in the future by Biosense Webster to the Company pursuant to the royalty provisions of one of the existing agreements. 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 would be deferred and will be due, together with any unrecouped portion of the \$10.0 million royalty advance, on the Final Payment Date (as defined below). Interest on the outstanding and unrecouped amounts of the royalty advance and deferred research and development expenses will accrue at an interest rate of the prime rate plus 0.75%. Outstanding royalty advances and deferred research and development expenses and accrued interest thereon will be recouped by Biosense Webster by deductions from royalty 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 June 30, 2010, approximately \$18.0 million had been advanced by Biosense Webster to the Company pursuant to the amendment. As of June 30, 2010, \$7.8 million of royalty payments owed by Biosense had been used to reduce the advances and the remaining approximately \$11.2 million of amounts owed to Biosense Webster has been classified as debt in the accompanying balance sheet including \$4.0 million as short-term debt and \$7.2 million as long-term debt. The Company recorded research and development expenses of \$0.1 million and \$0.3 million and royalties within disposables, service and accessories revenue of \$0.9 million and \$1.9 million for the three and six months ended June 30, 2010, related to this agreement.

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 was required to make quarterly payments (the “Supplemental Payments”) to Biosense Webster equal to the difference between the aggregate royalty payments recouped by Biosense Webster from the Company (other than royalty 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).

STEREOTAXIS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)
(Unaudited)

10. Stockholders' Equity

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, 2009 and the Company's definitive Proxy Statement on Schedule 14A filed with the SEC on April 15, 2010. At June 30, 2010, the Board of Directors had reserved a total of 7,252,311 shares of the Company's common stock to provide for current and future grants under its various equity plans.

At June 30, 2010, the total compensation cost related to options, stock appreciation rights and non-vested stock granted to employees under the Company's stock award plans but not yet recognized was approximately \$4.3 million, net of estimated forfeitures of approximately \$1.3 million. This cost will be amortized over a period of up to four years on a straight-line basis over the underlying estimated service periods and will be adjusted for subsequent changes in estimated forfeitures and anticipated vesting periods. In March 2010, the Company made an adjustment to its forfeiture rate based on historical information, which resulted in a reduction of share-based compensation of \$0.8 million for the six months ended June 30, 2010.

A summary of the option and stock appreciation rights activity for the six months ended June 30, 2010 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, 2009	4,675,450	\$0.78 - \$14.84	\$ 6.63
Granted	965,000	\$ 3.62 - \$4.86	\$ 4.33
Exercised	(130,555)	\$ 1.62 - \$4.94	\$ 3.53
Forfeited	(357,177)	\$3.46 - \$14.84	\$ 6.92
Outstanding, June 30, 2010	<u>5,152,718</u>	\$0.78 - \$14.84	<u>\$ 6.26</u>

A summary of the restricted share grant activity for the six months ended June 30, 2010 is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value per Share</u>
Outstanding, December 31, 2009	858,938	\$ 6.66
Granted	—	—
Vested	(268,849)	\$ 5.59
Forfeited	(294,077)	\$ 9.33
Outstanding, June 30, 2010	<u>296,012</u>	<u>\$ 4.97</u>

A summary of the restricted stock outstanding as of June 30, 2010 is as follows:

	<u>Number of Shares</u>
Time based restricted shares	44,012
Performance based restricted shares	252,000
Outstanding, June 30, 2010	<u>296,012</u>

11. Warrants Liability

The Company currently does not have derivative instruments to manage its exposure to currency fluctuations or other business risks. The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. All derivative financial instruments are recognized in the balance sheet at fair value.

STEREOTAXIS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)
(Unaudited)

In conjunction with its December 29, 2008 registered direct offering, the Company issued warrants to purchase 1,792,408 shares of the Company's common stock that contained a provision that required a reduction of the exercise price if certain equity events occurred. Under the provisions of general accounting principles for derivatives and hedging activities and determining whether an instrument (or embedded feature) is indexed to an entity's own stock, such a reset provision does not meet the exemptions for equity classification and as such, the Company accounts for these warrants as derivative instruments. The calculated fair value of the warrants is classified as a liability and is periodically remeasured with any changes in value recognized in "Other income" in the Statement of Operations. General accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity's own stock became effective for the Company as of January 1, 2009. Accordingly, the fair value of the warrants as of that date was reclassified from stockholders' equity into current liabilities.

In accordance with general accounting principles for fair value measurement, the Company's warrants in the amount of \$3,172,562 were measured at fair value on a recurring basis as of June 30, 2010 and were valued using Level 3 valuation inputs. A Monte Carlo model was used to value the Company's warrants at June 30, 2010 using the following assumptions: 1) dividend yield of 0%; 2) volatility of 67%; 3) risk-free interest rate of 1.41%; and 4) expected life of 4 years. The fair value of the outstanding derivative instrument and the effect on the Statement of Operations is as follows:

	<u>Fair Value of Warrants</u>
Balance, December 31, 2009	\$4,142,614
Change in fair value	(970,052)
Balance, June 30, 2010	<u>\$3,172,562</u>

12. 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 accrued liabilities - other, consists of the following:

	<u>June 30, 2010</u>
Warranty accrual, December 31, 2009	\$ 547,483
Warranty expense incurred	230,739
Payments made	(249,205)
Warranty accrual, June 30, 2010	<u>\$ 529,017</u>

13. Commitments and Contingencies

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

14. Subsequent Events

In July 2010, the Company entered into an amendment to its current agreement with Biosense Webster. This amendment extends Biosense Webster's exclusive distribution rights for the Company's non-irrigated catheters until December 31, 2010 in order to extend the time for negotiation of a possible expanded collaboration agreement including co-marketing of Odyssey products. This agreement also updates the parties' revenue sharing arrangement in accordance with such extension.

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, 2009. 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, 2009. 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 Enterprise Solution which provides an innovative information backbone for managing, controlling, recording and sharing procedures performed in interventional labs. The ODYSSEY Vision standardizes data integration for magnetic and standard interventional labs by enhancing the physician workflow through a consolidated display of multiple systems and eliminating the challenge of interacting simultaneously with many separate diagnostic systems. ODYSSEY Enterprise Cinema then captures a complete record of synchronized procedure data that can be viewed live or from a comprehensive archive of cases performed. Hospitals can also share procedures with other institutions providing a forum for defining clinical best practices across a broad spectrum of medical procedures. The core components of the NIOBE and the ODYSSEY systems 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 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, 2009.

Revenue Recognition

For arrangements with multiple deliverables, the Company allocates the total revenue to each deliverable based on the provisions of general accounting principles for revenue recognition and multiple-deliverable revenue arrangements and recognizes revenue for each separate element as the criteria for revenue recognition are met. Each element is assigned an estimated selling price using vendor-specific objective evidence, third party evidence, or management's estimate.

Under our revenue recognition policy, a portion of revenue for NIOBE systems is recognized upon delivery, provided that title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. Beginning in the quarter ended March 31, 2010, revenue for certain ODYSSEY VISION systems was recognized upon delivery due to the fact that third parties became qualified to perform installations. However, this change did not have a material impact on revenue recognition for the three months ended March 31, 2010. Beginning in the quarter ended June 30, 2010, revenue for the remaining types of ODYSSEY VISION systems was recognized upon delivery due to the fact that third parties became qualified to perform installations. This change resulted in additional revenue of \$1.2 million and additional gross margin of \$0.6 million during the quarter ended June 30, 2010. Revenue is recognized for other types of ODYSSEY systems upon completion of installation, since there are no qualified third party installers. We may deliver systems to a non-hospital site at the customer's request. We evaluate whether delivery has occurred considering general accounting principles for revenue recognition with respect to "bill and hold" transactions. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue.

Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multiple-deliverable arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and establish an appropriate reserve for returns. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimis effect on revenue recognized in the period. We believe that the estimate is not likely to change significantly in the future.

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

Results of Operations

Comparison of the Three Months Ended June 30, 2010 and 2009

Revenue. Revenue increased from \$12.6 million for the three months ended June 30, 2009 to \$15.0 million for the three months ended June 30, 2010, an increase of approximately 19%. Revenue from the sale of systems increased from \$8.2 million to \$9.4 million, an increase of approximately 16%, primarily due to an increase in the number of ODYSSEY systems sold. We recognized revenue on seven NIOBE systems and a total of \$2.5 million for ODYSSEY systems during the 2010 period, versus eight NIOBE systems and a total of \$0.4 million for ODYSSEY systems during the 2009 period. Revenue from sales of disposable interventional devices, service and accessories increased to \$5.6 million for the three months ended June 30, 2010 from \$4.5 million for the three months ended June 30, 2009, an increase of approximately 24%. The increase was attributable to the increased base of installed systems, the resulting increase in disposable sales and service contracts, as well as favorable volume and pricing on a next generation proprietary disposable.

Cost of Revenue. Cost of revenue increased from \$4.7 million for the three months ended June 30, 2009 to \$4.9 million for the three months ended June 30, 2010, an increase of approximately 6%. As a percentage of our total revenue, overall gross margin improved to 67% for the three months ended June 30, 2010 compared to 63% during the same three month period of the prior year. Cost of revenue for systems sold increased from \$3.2 million for the three months ended June 30, 2009 to \$4.3 million for the three months ended June 30, 2010, an increase of approximately 34%, primarily due to the increase in the number of ODYSSEY systems sold in the most recent quarter. Cost of revenue for disposables, service and accessories decreased to \$0.6 million during the 2010 period from \$1.5 million during the 2009 period, resulting in an increase in gross margin to 89% from 68% between these periods. This decrease in cost of revenue was primarily due to higher than normal maintenance costs related to a first generation NIOBE system in 2009 as well as higher costs associated with software upgrades in 2009 compared to 2010.

Research and Development Expenses. Research and development expenses decreased from \$3.6 million for the three months ended June 30, 2009 to \$3.4 million for the three months ended June 30, 2010, a decrease of approximately 8%. This decrease was primarily due to reduced consulting costs associated with new product development and introductions.

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Sales and Marketing Expenses. Sales and marketing expenses increased from \$7.7 million for the three months ended June 30, 2009 to \$8.4 million for the three months ended June 30, 2010, an increase of approximately 10%. The increase was primarily due to headcount additions supporting capital penetration and clinical adoption efforts.

General and Administrative Expenses. General and administrative expenses include regulatory, clinical, general management and training expenses. General and administrative expenses increased to \$4.0 million from \$3.3 million for the three months ended June 30, 2010 and 2009, respectively, an increase of approximately 20%. This increase was primarily due to increased customer training costs and foreign currency fluctuation.

Other Income. Other income represents the change in market value of certain warrants classified as a derivative and recorded as a current liability under general accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity's own stock. The primary drivers of fluctuations in this balance are changes in the Company's stock price from one period to the next.

Interest Income. Interest income remained consistent at less than \$0.1 million for the three months ended June 30, 2010 and 2009.

Interest Expense. Interest expense decreased to \$0.7 million for the three months ended June 30, 2010 from \$1.1 million for the three months ended June 30, 2009, primarily due to lower average debt balances outstanding.

Comparison of the Six Months Ended June 30, 2010 and 2009

Revenue. Revenue increased from \$23.8 million for the six months ended June 30, 2009 to \$25.6 million for the six months ended June 30, 2010, an increase of approximately 8%. Revenue from the sale of systems decreased from \$15.0 million to \$14.7 million, a decrease of approximately 2%, primarily due to a decrease in the number of NIOBE systems sold. We recognized revenue on eleven NIOBE systems and a total of \$3.3 million for ODYSSEY systems during the 2010 period, versus thirteen NIOBE systems and a total of \$1.3 million for ODYSSEY systems during the 2009 period. Revenue from sales of disposable interventional devices, service and accessories increased to \$11.0 million for the six months ended June 30, 2010 from \$8.8 million for the six months ended June 30, 2009, an increase of approximately 25%. The increase was attributable to the increased base of installed systems, the resulting disposable sales and service contracts, as well as favorable pricing on a next generation proprietary disposable.

Cost of Revenue. Cost of revenue decreased from \$8.1 million for the six months ended June 30, 2009 to \$7.8 million for the six months ended June 30, 2010, a decrease of approximately 3%. As a percentage of our total revenue, overall gross margin improved to 69% for the six months ended June 30, 2010 compared to 66% during the same six month period of the prior year, due to a shift from system revenue to recurring revenue. Cost of revenue for systems sold increased from \$5.8 million for the six months ended June 30, 2009 to \$6.4 million for the six months ended June 30, 2010, an increase of approximately 11%, primarily due to the increase in the number of ODYSSEY systems sold in the most recent quarter. Cost of revenue for disposables, service and accessories decreased to \$1.5 million during the 2010 period from \$2.4 million during the 2009 period, resulting in an increase in gross margin to 87% from 73% between these periods. This decrease in cost of revenue was primarily due to higher than normal maintenance costs related to a first generation NIOBE system in 2009 as well as higher costs associated with software upgrades in 2009 compared to 2010.

Research and Development Expenses. Research and development expenses decreased from \$6.9 million for the six months ended June 30, 2009 to \$6.7 million for the six months ended June 30, 2010, a decrease of approximately 3%. This decrease was primarily due to reduced consulting costs associated with new product development and introductions.

Sales and Marketing Expenses. Sales and marketing expenses remained unchanged at \$15.1 million for the six months ended June 30, 2010 and 2009. Current year expenses include \$1.3 million related to additional headcount supporting capital penetration and clinical adoption efforts, which were offset by \$0.8 million of reduced share-based compensation as a result of increased forfeiture rates and \$0.8 million of asset impairment charges in 2009.

General and Administrative Expenses. General and administrative expenses include regulatory, clinical, general management and training expenses. General and administrative expenses increased to \$7.9 million from \$7.4 million for the six months ended June 30, 2010 and 2009, respectively, an increase of approximately 7%. This increase was primarily due to increased customer training costs and foreign currency fluctuation.

Other Income. Other income represents the change in market value of certain warrants classified as a derivative and recorded as a current liability under general accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity's own stock. The primary drivers of fluctuations in this balance are changes in the Company's stock price from one period to the next.

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Interest Income. Interest income remained consistent at less than \$0.1 million for the six months ended June 30, 2010 and 2009.

Interest Expense. Interest expense decreased to \$1.3 million for the six months ended June 30, 2010 from \$1.8 million for the six months ended June 30, 2009, primarily due to lower average debt balances outstanding.

Liquidity and Capital Resources

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents. At June 30, 2010 we had \$22.0 million of cash and equivalents. We had a working capital deficit of approximately (\$0.2) million compared to working capital of \$22.9 million as of June 30, 2010 and December 31, 2009, respectively. The decrease in working capital is primarily due to the reclassification of \$10 million of debt from long-term to current and the \$13.1 million use of cash from operating activities.

The following table summarizes our cash flow by operating, investing and financing activities for each of the six month periods ended June 30, 2010 and 2009 (in thousands):

	Six Months Ended June 30,	
	2010	2009
Cash Flow used in Operating Activities	\$(13,134)	\$(16,066)
Cash Flow used in Investing Activities	(549)	(1,246)
Cash Flow provided by (used in) Financing Activities	5,150	(264)

Net cash used in operating activities. We used approximately \$13.1 million and \$16.1 million of cash for operating activities during the six months ended June 30, 2010 and 2009, respectively. This decrease was driven by an improvement in our cash position of operating assets and liabilities as well as a decrease in the net loss of \$2.7 million.

Net cash used in investing activities. We used approximately \$0.5 million and \$1.2 million of cash for purchases of equipment during the six months ended June 30, 2010 and 2009, respectively.

Net cash provided by (used in) financing activities. We generated approximately \$5.2 million of cash compared to a \$0.3 million use of cash for the six months ended June 30, 2010 and 2009, respectively. This increase in cash was primarily due to additional borrowings against our line of credit during the six months ended June 30, 2010.

Borrowing facilities

In December 2009, the Company amended its agreement with its primary lender to extend the maturity of the current working capital line of credit from March 31, 2010 to March 31, 2011 and to increase the total availability under the line from \$25 million to \$30 million, retaining the \$10 million sublimit for borrowings supported by guarantees from stockholders who are affiliates of two members of its board of directors (“Lenders”) and considered to be related parties. Under the revised facility the Company is required to maintain a minimum “tangible net worth” as defined in the agreement. Interest on the facility accrues at the rate of prime plus 0.5% subject to a floor of 6% for the amount under guarantee and prime plus 1.75% subject to a floor of 7% for the remaining amounts.

As of June 30, 2010, the Company had \$15.5 million outstanding under the revolving line of credit and a current borrowing capacity of \$19.8 million based on the Company’s collateralized assets, including amounts already drawn. As such, the Company had the ability to borrow an additional \$4.3 million under the revolving line of credit at June 30, 2010. As of June 30, 2010, the Company was in compliance with all covenants of the bank loan agreement and had no remaining availability on its Lender loan and guarantee.

The revolving line of credit is secured by substantially all of the Company’s assets. The Company is also required under the revolving line of credit to maintain its primary operating account and the majority of its cash and investment balances in accounts with the primary lender.

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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 was required to make equal payments of principal and interest, at prime plus 1%, through June 2010, at which time the term note matured.

In July 2008, the Company and Biosense Webster entered into an amendment to their existing agreements relating to the development and sale of catheters. Pursuant to the amendment, Biosense Webster agreed to pay to the Company \$10.0 million as an advance on royalty amounts that were owed at the time the amendment was executed or would be owed in the future by Biosense Webster to the Company pursuant to the royalty provisions of one of the existing agreements. 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 would be deferred and will be due, together with any unrecouped portion of the \$10.0 million royalty advance, on the Final Payment Date (as defined below). Interest on the outstanding and unrecouped amounts of the royalty advance and deferred research and development expenses will accrue at an interest rate of the prime rate plus 0.75%. Outstanding royalty advances and deferred research and development expenses and accrued interest thereon will be recouped by Biosense Webster by deductions from royalty 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 June 30, 2010, approximately \$18.0 million had been advanced by Biosense Webster to the Company pursuant to the amendment. As of June 30, 2010, \$7.8 million of royalty payments owed by Biosense Webster has been used to reduce the advances and the remaining approximately \$11.2 million of amounts owed to Biosense Webster has been classified as debt in the accompanying balance sheet including \$4.0 million as short-term debt and \$7.2 million as long-term debt. The Company recorded research and development expenses of \$0.1 million and \$0.3 million and royalties within disposables, service and accessories revenue of \$0.9 million and \$1.9 million for the three and six months ended June 30, 2010, related to this agreement.

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 was required to make quarterly payments (the "Supplemental Payments") to Biosense Webster equal to the difference between the aggregate royalty payments recouped by Biosense Webster from the Company (other than royalty 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).

Cash flow

We expect to have negative cash flow from operations in 2010. Throughout 2010, we expect to continue the development and commercialization of our existing products and, to a lesser extent, our research and development programs and the advancement of new products into clinical development. We expect that our sales and marketing expenditures and our general and administrative expenses will increase in 2010 in order to support our product commercialization efforts. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with existing cash resources that were primarily generated from the proceeds of our public offerings, private sales of our equity securities and working capital and equipment financing loans. In the future, we may finance future cash needs through the sale of other equity securities, strategic collaboration agreements and debt financings. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors outside of our control.

As currently structured, the \$30 million working capital facility as well as the financing commitment provided by the Lenders expires on March 31, 2011 although we currently anticipate we will be able to renew the facility on substantially similar terms. While we believe our existing cash, cash equivalents and borrowing facilities will be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months (assuming extensions of the guarantee from the Lenders as well as the revolving line of credit following March 31, 2011), we cannot assure that we will not require additional financing before that time. We also cannot assure that such additional financing will be available on a timely basis on terms acceptable to us or at all, or that such financing will not be dilutive to our stockholders. If adequate funds are not available to us, we could be required to delay development or commercialization of new products, to license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize ourselves or to reduce the sales, marketing, customer support or other resources devoted to our products, any of which could have a material adverse effect on our business, financial condition and results of operations.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

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. Although the majority of our revenue and expenses are transacted in U.S. dollars, a portion of our activities are conducted in Euros and to a lesser extent, in other currencies. As such, we have foreign exchange exposure with respect to non-U.S. dollar revenues and expenses as well as cash balances, accounts receivable and accounts payable balances denominated in non-US dollar currencies. Our international activities are subject to risks typical of international activities, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Future fluctuations in the value of these currencies may affect the price competitiveness of our products. In addition, because we have a relatively long installation cycle for our systems, we will be subject to risk of currency fluctuations between the time we execute a purchase order and the time we deliver the system and collect payments under the order, which could adversely affect our operating margins. As of June 30, 2010 we have not hedged exposures in foreign currencies or entered into any other derivative instruments.

For the six months ended June 30, 2010, sales denominated in foreign currencies were approximately 20% of total revenue and as such, our revenue would have decreased by approximately \$0.5 million if the U.S. dollar exchange rate used would have strengthened by 10%. For the six months ended June 30, 2010, expenses denominated in foreign currencies were approximately 13% of our total expenses and as such, our operating expenses would have decreased by approximately \$0.4 million if the U.S. dollar exchange rate used would have strengthened by 10%. In addition, we have assets and liabilities denominated in foreign currencies. A 10% strengthening of the U.S. dollar exchange rate against all currencies with which we have exposure at June 30, 2010 would not have materially affected the carrying amounts of those net assets.

Interest Rate Risk

We have exposure to interest rate risk related to our investment portfolio. 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. When appropriate, 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 typically purchase 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 have exposure to market risk related to any investments we might hold. Market liquidity issues might make it impossible for the Company to liquidate its holdings or require that the Company sell the securities at a substantial loss. As of June 30, 2010, the Company did not hold any investments.

We have exposure to interest rate risk related to our borrowings as the interest rates for certain of our outstanding loans are subject to increase should the interest rate increase above a defined percentage. However, because our outstanding debt is subject to minimum interest rates ranging from 5.75% to 7.0%, a hypothetical increase in interest rates of 100 basis points would have resulted in no increase in interest expense for the six months ended June 30, 2010.

Inflation Risk

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, 2009.

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

On June 4, 2010, the Company entered into an agreement to issue 450,000 shares of its common stock to a consultant (the “Purchaser”) in exchange for intellectual property rights related to the Company’s products. The Company issued 200,000 shares upon execution of the agreement and will issue an aggregate of 250,000 shares in annual installments on the first three anniversaries of the agreement. The unissued shares meet the criteria for equity classification under Accounting Standards Codification 480 Distinguishing Liabilities from Equity and therefore, are recorded in additional paid-in capital. There was no cash consideration paid for the securities. The securities were issued in consideration of the assignment to the Company of the Purchaser’s rights in certain intellectual property, including patent applications, in all inventions and discoveries in the Company’s business field (as defined in the agreement) that had been developed under various other agreements, which were terminated. The securities were sold by the Company in a private placement exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder. There were no underwriters or placement agents involved in the transaction.

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased</u>	<u>Average Price Paid per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
June 4, 2010 ⁽¹⁾	200,000	3.70		250,000
Total	200,000	3.70	—	250,000

(1) Shares issued in exchange for intellectual property related to Stereotaxis products.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [RESERVED]

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits: See Exhibit Index herein

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 #	2002 Stock Incentive Plan, as amended and restated May 26, 2010 (filed herewith).
10.2 †	Fifth Amendment to the Development Alliance and Supply Agreement, dated as of July 30, 2010, between the Registrant and Biosense Webster, Inc., incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K/A (File No. 000-50884) filed on August 3, 2010.
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.
#	Indicates management contract or compensatory plan.
†	Confidential treatment granted as to certain portions, which portions are omitted and filed separately with the Securities and Exchange Commission.

STEREOTAXIS, INC.

2002 STOCK INCENTIVE PLAN

As amended and restated effective May 26, 2010

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, stock appreciation right, performance share award, restricted stock award, or other stock-based 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) “Parent”—Any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the granting of an Award, each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, or such other meaning as may be hereafter ascribed to it in Code Section 424.
- (m) “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.
- (n) “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.
- (o) “Shares” or “Stock”—Authorized and issued or unissued shares of common stock of the Company.
- (p) “Subsidiary”—Any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of granting an Award, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, or such other meaning as may be hereafter ascribed to it in Code Section 424.

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 10,410,998. 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 8,164,484 shares may be used for the grant of Incentive Stock Options. In addition, not more than 750,000 of the Shares available under the Plan may be used for the grant of fully vested shares (in the form of Other Stock-Based Awards) to satisfy payments under an annual incentive plan maintained by the Company.

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 and Nonqualified Stock Options shall be not less than 100% of Fair Market Value on the date of grant; provided that, in the case of a Participant who owns more than 10% of the total combined voting power of all classes of stock of the Company, its Parent or a Subsidiary, the exercise price of Incentive Stock Options shall not be less than 110% of the Fair Market Value of the Stock on the date of grant. No individual may be granted options to purchase more than 277,777 shares during any Fiscal Year. The term of each option shall not be more than ten (10) years from the date of granting thereof or such shorter period as is prescribed in the Award Agreement; provided that, in the case of a Participant who owns more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, a Parent or a Subsidiary, the term of any Incentive Stock Option shall not be more than five (5) years from the date of granting thereof or such shorter period as prescribed in the Award Agreement. Within such limit, options will be exercisable at such time or times, and subject to such restrictions and conditions, as the Committee shall, in each instance, approve, which need not be uniform for all Participants. The holder of an option shall have none of the rights of a shareholder with respect to the shares subject to option until such shares shall be issued to him or her upon the exercise of his or her option.

(b) Stock Appreciation Rights—A stock appreciation right is a grant of a right to receive a payment from the Company in an amount equal to the excess of the Fair Market Value on the exercise date of a share of Stock over the exercise price per share, times the number of stock appreciation rights exercised. The exercise price of stock appreciation rights shall not be less than 100% of Fair Market Value on the date of grant. A stock appreciation right granted in connection with an option shall entitle the Participant to surrender an unexercised option (or portion thereof) and to receive in exchange an amount equal to the excess of the fair market value on the exercise date of a share of Stock over the exercise price per share for the option, times the number of shares covered by the option (or portion thereof) which is surrendered. Payment may be made, in the discretion of the Committee, in (i) Stock, (ii) cash or (iii) any combination of Stock and cash. Cash shall be paid for fractional shares of Stock upon the exercise of a stock appreciation right. The maximum number of shares of Stock subject to Awards for stock appreciation rights, for grants which are intended to qualify under Section 162(m), which may be granted during a calendar year to a Participant shall be 250,000.

(c) 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. The maximum number of shares of Stock subject to Awards for performance shares, for grants which are intended to qualify under Section 162(m), which may be granted during a calendar year to a Participant shall be 250,000.

(d) 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. The maximum number of shares of Stock subject to Awards for restricted stock, for grants which are intended to qualify under Section 162(m), which may be granted during a calendar year to a Participant shall be 250,000.

(e) Other Stock-Based Award and Cash-Based Award—The Committee may, in its sole discretion, grant Awards of Stock, and other Awards that are valued in whole or in part by reference to the Fair Market Value of Stock. These Awards shall collectively be referred to herein as Other Stock-Based Awards. The Committee may also, in its sole discretion, grant cash awards, referred to herein as Cash-Based Awards. Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, but not limited to, the right to receive fully vested shares. Other Stock-Based Awards and Cash-Based Awards may be granted with or in addition to other Awards. Subject to the other terms of the Plan, Other Stock-Based Awards and Cash-Based Awards may be granted to such Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee and set forth in an Award Agreement. The maximum amount that may be awarded, for grants which are intended to qualify under Section 162(m), during a calendar year to a Participant as an Other Stock-Based Award shall be 250,000 shares and as a Cash-Based Award shall be \$1,000,000.

(f) Performance Criteria under section 162(m) of the Code—The performance criteria for 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. To the extent an Award is intended to be performance-based compensation under Section 162(m) of the Code, no payments are to be made to a Participant who is a “covered employee” 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 under an Award to a “covered employee” to the extent such Award is intended to qualify as performance-based compensation under section 162(m) of the Code.

(g) 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.

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. Any such procedures permitting deferrals, dividends or dividend equivalents must be in writing and must comply with the requirements of section 409A of the Code.

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.

In the event of a Change in Control, notwithstanding any other provisions of the Plan or an Award Agreement to the contrary, the Committee may, in its sole discretion, provide for:

- (1) Accelerated vesting of any outstanding Awards that are otherwise unexercisable or unvested as of a date selected by the Committee;
- (2) Termination of an Award upon the consummation of the Change in Control in exchange for the payment of a cash amount (but only in a manner which does not result in a violation of Code Section 409A); and/or
- (3) Issuance of substitute Awards to substantially preserve the terms of any Awards previously granted under the Plan (but only in a manner which does not result in a violation of Code Section 409A).

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 originally adopted by the Board on March 25, 2002 and subsequently approved by shareholders of the Company. 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, Michael P. Kaminski, 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 6, 2010

/s/ Michael P. Kaminski

Michael P. Kaminski
Chief Executive Officer
Stereotaxis, Inc.
(Principal Executive Officer)

Certification of Principal Financial Officer

I, Daniel J. Johnston, 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 6, 2010

/s/ Daniel J. Johnston

Daniel J. Johnston
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 March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael P. Kaminski, Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: August 6, 2010

/s/ Michael P. Kaminski

Michael P. Kaminski
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 March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel J. Johnston, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: August 6, 2010

/s/ Daniel J. Johnston

Daniel J. Johnston
Chief Financial Officer
Stereotaxis, Inc.