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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 September 30, 2005.

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

For the transition period from_____ to_____ .

Commission File Number: 000-50884

STEREOTAXIS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-3120386**
(State of Incorporation)	**(I.R.S. employer identification no.)**
4041 Forest Park Avenue **St. Louis, Missouri**	**63108**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (314) 615-6940

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, $0.001 par value 27,697,091shares issued and outstanding as of October 31, 2005.

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ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.
BALANCE SHEETS

	September 30, 2005 (Unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 6,391,010	$ 16,907,516
Short-term investments	15,866,965	28,741,318
Accounts receivable, net of allowance of $45,786 and $146,223 in 2005 and 2004, respectively	8,925,218	8,621,205
Current portion of long-term receivables	463,760	168,795
Inventories	7,588,434	4,673,994
Prepaid expenses and other current assets	2,987,907	2,351,058
Total current assets	42,223,294	61,463,886
Property and equipment, net	1,855,938	1,557,847
Intangible assets	1,711,111	1,811,111
Long-term receivables	463,760	337,590
Other assets	122,015	120,697
Long-term investments	—	5,896,625
Total assets	$ 46,376,118	$ 71,187,756
Liabilities and stockholders' equity		
Current liabilities:		
Current maturities of long-term debt	$ 666,667	$ 910,434
Accounts payable	4,376,113	2,129,473
Accrued liabilities	7,705,607	5,710,216
Deferred revenue	3,015,606	2,308,923
Total current liabilities	15,763,993	11,059,046
Long-term debt, less current maturities	500,000	1,000,000
Long-term deferred revenue	870,587	732,835
Other liabilities	11,126	1,407
Stockholders' equity:		
Common stock, par value of $0.001; 100,000,000 shares authorized at 2005, and 2004; 27,720,223 and 27,187,042 issued at 2005 and 2004, respectively	27,720	27,187
Additional paid-in capital	177,192,163	174,143,587
Deferred compensation	(2,320,837)	(671,950)
Treasury stock, 36,519 shares at 2005 and 2004	(162,546)	(162,546)
Notes receivable from sales of stock	(182,424)	(173,432)
Accumulated deficit	(145,251,368)	(114,673,234)
Accumulated other comprehensive income (loss)	(72,296)	(95,144)
Total stockholders' equity	29,230,412	58,394,468
Total liabilities and stockholder's equity	$ 46,376,118	$ 71,187,756

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30,	
	2005	2004	2005	2004
Systems revenue	$ 1,164,570	$ 5,371,216	$ 11,257,060	$ 11,518,568
Disposables, service and accessories revenue	523,769	342,395	1,663,906	1,177,867
Total revenue	1,688,339	5,713,611	12,920,966	12,696,435
Cost of revenue	791,436	2,729,518	6,426,245	7,706,949
Gross margin	896,903	2,984,093	6,494,721	4,989,486
Operating expenses:				
Research and development	4,900,054	3,907,373	12,593,401	13,005,474
General and administration	3,746,748	1,800,495	9,635,424	5,300,559
Sales and marketing	4,323,736	2,628,226	12,534,151	8,343,708
Royalty settlement	—	—	2,923,111	—
Total operating expenses	12,970,538	8,336,094	37,686,087	26,649,741
Operating loss	(12,073,635)	(5,352,001)	(31,191,366)	(21,660,255)
Interest income	228,077	147,047	794,053	461,679
Interest expense	(60,737)	(112,535)	(180,821)	(335,002)
Net loss	$(11,906,295)	$(5,317,489)	$(30,578,134)	$(21,533,578)
Net loss per common share:				
Basic and diluted	$ (0.44)	$ (0.34)	$ (1.12)	$ (3.46)
Weighted average shares used in computing net loss per common share:				
Basic and diluted	27,365,263	15,567,170	27,268,772	6,219,334

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net loss	$(30,578,134)	$(21,533,578)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	563,854	584,392
Amortization and accretion	78,592	100,000
Noncash compensation	424,752	357,449
Noncash interest receivable from interest accrual	11,019	12,612
Loss on asset disposal	46,928	41,476
Changes in operating assets and liabilities:		
Accounts receivable	(304,013)	(6,897,164)
Long-term receivables	(421,135)	159,637
Inventories	(2,914,440)	309,606
Prepaid expenses and other current assets	(636,849)	(1,269,670)
Other assets	(1,318)	(23,445)
Accounts payable	2,246,640	888,480
Accrued liabilities	1,995,391	1,133,384
Deferred contract revenue	844,435	1,931,705
Other liabilities	9,719	123,613
Net cash (used in) operating activities	(28,634,559)	(24,081,503)
Cash flows from investing activities:		
Purchase of equipment	(908,873)	(1,393,362)
Proceeds from sale of equipment		1,489,904
Purchase of available-for-sale instruments	(8,097,777)	(6,955,147)
Proceeds from the maturity/sale of available-for-sale investments	26,893,000	—
Net cash provided by (used in) investing activities	17,886,350	(6,858,605)
Cash flows from financing activities:		
Proceeds from long-term debt	—	2,000,000
Payments under long-term debt	(743,767)	(2,182,440)
Proceeds from issuance of stock and warrants, net of issuance costs	975,470	57,423,142
Purchase of treasury stock	—	(90)
Payments received on notes receivable from sale of common stock	—	119,960
Net cash provided by financing activities	231,703	57,360,572
Net (decrease) increase in cash and cash equivalents	(10,516,506)	26,420,464
Cash and cash equivalents at beginning of period	16,907,516	21,356,247
Cash and cash equivalents at end of period	$ 6,391,010	$ 47,776,711

See accompanying notes.

STEREOTAXIS, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Basis of Presentation

The accompanying unaudited financial statements of Stereotaxis, Inc. (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, they include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. Operating results for the three and nine month periods ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005 or for future operating periods. These interim financial statements and the related notes should be read in conjunction with the annual financial statements and notes included in the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission on March 29, 2005 for the year ended December 31, 2004. Certain prior year amounts have been reclassified to conform to the 2005 presentation.

Net Loss per Common Share

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

The Company has deducted shares subject to repurchase from the calculation of shares used in computing net loss per share, basic and diluted. The Company has excluded all outstanding convertible preferred stock, options, stock appreciation rights, warrants and unearned restricted shares from the calculation of diluted loss per common share because all such securities are anti-dilutive for all periods presented. All of the Company's shares of preferred stock outstanding immediately prior to the Company's initial public offering in August 2004 were converted into 19,282,325 shares of common stock. As of September 30, 2005, the Company had 2,512,483 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of $6.04 per share and 1,063,019 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $8.58 per share. The Company had 283,475 unearned restricted shares issued as of September 30, 2005.

Stock-Based Compensation

As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company has elected to follow Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for stock-based employee compensation. Under APB No. 25, if the exercise price of the Company's employee and director stock options or stock appreciation rights equals or exceeds the estimated fair value of the underlying stock on the date of grant and the number of options or stock appreciation rights is not variable, no compensation expense is recognized. Options are variable if the options are forfeitable when performance milestones described in the option agreements may not occur. When the exercise price of the employee or director stock options or stock appreciation rights is less than the estimated fair value of the underlying stock (intrinsic value) at the date of grant or for variable options through the vesting or forfeiture date, the Company records deferred compensation for the intrinsic value and amortizes the amount to expense over the service period on a straight-line basis. Deferred compensation for variable options or stock appreciation rights granted to employees and directors is periodically remeasured through the vesting or forfeiture date.

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

Restricted shares granted to employees are valued at the fair market value at the date of grant. The Company records deferred compensation for the value and amortizes the amount to expense over the service period on a

straight-line basis. If the shares granted are subject to performance criteria, the deferred compensation is periodically remeasured through the vesting or forfeiture date. During the nine months ended September 30, 2005, the Company issued 310,900 restricted shares and accordingly recorded deferred compensation in the amount of $2,425,020.

Shares granted under the 2004 Employee Stock Purchase Plan are accounted for in accordance with APB 25 and no compensation expense has been recorded.

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net loss as reported	$(11,906,295)	$(5,317,489)	$(30,578,134)	$(21,533,578)
Add stock-based compensation included in net loss	249,917	102,908	424,752	357,449
Deduct stock-based compensation under fair value method	(987,771)	(798,422)	(2,355,617)	(2,134,206)
Pro-forma net loss	$(12,644,149)	$(6,013,003)	$(32,508,999)	$(23,310,335)
Net loss per share, as reported	$ (0.44)	$ (0.34)	$ (1.12)	$ (3.46)
Net loss per share, pro-forma	$ (0.46)	$ (0.39)	$ (1.19)	$ (3.75)

For purposes of the above proforma disclosure, the fair value of each option or stock appreciation right is estimated on the date of grant using the Black-Scholes option pricing model.

Under SFAS No. 123, shares purchased by employees through the 2004 Employee Stock Purchase Plan will be considered compensatory. As such, in 2006 the expected compensation cost will be deferred and amortized over the requisite service period.

Option valuation models require the input of highly subjective assumptions. Because the Company's employee stock options and stock appreciation rights have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models may not accurately reflect the fair value of employee stock options and stock appreciation rights.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment.* SFAS No. 123(R) supersedes APB Opinion No. 25 and requires recognition of an expense when goods or services are provided. SFAS No. 123(R) requires the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation vests. As a result of the release of a recent Securities and Exchange Commission rule, we will be required to adopt the provisions of SFAS No. 123(R) effective January 1, 2006. The adoption of this standard will not affect the stock-based compensation associated with the Company's restricted stock which is already recorded at fair value on the date of grant and recognized over the vesting period but will result in the recognition of stock-based compensation in future periods for remaining unvested stock options, stock appreciation rights and the employee stock purchase plan as of the effective date. The Company has not yet quantified the impact SFAS No. 123(R) will have on its financial statements, but anticipates that implementation of this rule will increase reported losses.

Comprehensive Loss

Comprehensive loss for the three-month period ended September 30, 2005 and 2004 was $(11,894,694) and $(5,296,738), respectively. Comprehensive loss for the nine month period ended September 30, 2005 and 2004 was $(30,555,286) and $(21,666,080), respectively. The only adjustment to net loss in arriving at comprehensive loss is the unrealized gain or loss on investments available for sale.

Inventory

Inventory consists of the following:

	September 30, 2005	December 31, 2004
Raw materials	$ 2,121,505	$1,401,591
Work in process	705,870	498,174
Finished goods	4,821,007	2,886,984
Reserve for obsolescence	(59,948)	(112,755)
Total inventory	$ 7,588,434	$4,673,994

Investments

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

	September 30, 2005	December 31, 2004
Short-term investments:		
Corporate debt	$ 4,476,188	$ 6,618,929
U.S. government agency	10,194,293	12,146,908
Commercial paper	1,196,484	9,975,481
Total short-term investments	15,866,965	28,741,318
Long-term investments:		
Corporate debt	—	1,876,861
U.S. government agency	—	4,019,764
Total long-term investments	—	5,896,625
Total investments	$15,866,965	$34,637,943

Stockholders' Equity

2004 Employee Stock Purchase Plan

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

Commitments and Contingencies

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

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

The following discussion and analysis should be read in conjunction with our financial statements and notes thereto included in this report on Form 10-Q and in our annual report on Form 10-K for the year ended December 31, 2004. Operating results are not necessarily indicative of results that may occur in future periods.

This report includes various forward-looking statements that are subject to risks and uncertainties, many of which are beyond our control. Our actual results could differ materially from those anticipated in these forward looking statements as a result of various factors, including those set forth below under the caption "Factors That May Affect Future Results." Forward-looking statements discuss matters that are not historical facts. Forward-looking statements include, but are not limited to, discussions regarding our operating strategy, sales and marketing strategy, regulatory strategy, industry, economic conditions, financial condition, liquidity and capital resources and results of operations. Such statements include, but are not limited to, statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "estimates," "projects," "can,"

"could," "may," "will," "would," or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not unduly rely on these forward-looking statements, which speak only as of the date on which they were made. They give our expectations regarding the future but are not guarantees. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

Overview

We design, manufacture and market an advanced cardiology instrument control system for use in a hospital's interventional surgical suite to enhance the treatment of coronary artery disease and arrhythmias. Our NIOBE cardiology magnet 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 computer-controlled, externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, which we believe will result in improved navigation, shorter procedure times and reduced x-ray exposure. The core components of our system have received regulatory clearance in the U.S. and Europe and we intend to continue to seek clearance or approvals for new products or in other countries in which we intend to operate.

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 accounting principles generally accepted in the U.S. 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.

Revenue Recognition

We recognize systems revenue from system sales made directly to end users upon installation, provided there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed or determinable, and collection of the related receivable is reasonably assured. When installation is required for revenue recognition, the determination of acceptance is made by our employees based on criteria set forth in the terms of the sale. Revenue from system sales made to distributors is recognized upon shipment since these arrangements do not include an installation element or right of return privileges. If uncertainties exist regarding collectability, we recognize revenue when those uncertainties are resolved. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Amounts due beyond 12 months are reflected as long term receivables in the balance sheet. Co-placement fees from strategic partners for our collaboration in certain sales and marketing efforts will be recognized as revenue when earned under the terms of the respective agreements. Revenue from services, whether sold individually or as a separable unit of accounting in a multi-element arrangement, is deferred and amortized over the service 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.

For arrangements with multiple deliverables, we allocate the total revenue to each deliverable based on its relative fair value in accordance with the provisions of Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* and recognize revenue for each separate element as the above criteria are met.

Stock-based Compensation

We account for employee and director stock options using the intrinsic-value method in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and have adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Stock options issued to non-employees, principally individuals who provide scientific advisory services, are recorded at their fair value as determined in accordance with SFAS No. 123 and EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, and amortized over the service period.

Stock compensation expense, which is a noncash charge, results from stock option grants made to employees at exercise prices below the deemed fair value of the underlying common stock, grants of stock appreciation rights if the number of shares to be issued cannot be determined, from stock option grants made to non-employees at the fair value of the option granted and from grants of restricted shares to employees. The fair value of options granted was determined using the Black-Scholes valuation method which gives consideration to the estimated value of the underlying stock at the date of grant, the exercise price of the option, the expected dividend yield and volatility of the underlying stock, the expected life of the option and the corresponding risk-free interest rate. When we were a private company, the deemed fair value of the underlying common stock was determined by management and the Board of Directors based on their best estimates using information from preferred stock financing transactions or other significant changes in the business. The fair value of the grants of restricted shares was determined based on the closing price of our stock on the date of grant. Stock compensation expense for options, stock appreciation rights and for time-based restricted share grants is amortized over the vesting period of the underlying issue, generally two to four years. Stock compensation expense for performance-based restricted shares is amortized over the anticipated vesting period, is remeasured through the vesting date and is subject to adjustment based on the probable or actual achievement of objectives. Unearned deferred compensation for non-employees and for grants of stock appreciation rights is periodically remeasured through the vesting date.

The amount of deferred compensation expense to be recorded in future periods may decrease if unvested options or stock appreciation rights or, performance based restricted shares for which we have recorded deferred compensation are subsequently cancelled or expire, or may increase if the fair market value of our stock increases, if we make grants of options at below fair market value or if we make additional grants of non-qualified stock options to members of our scientific advisory board or other non-employees or if we make additional grants of restricted shares or stock appreciation rights. When we adopt SFAS No. 123, *Share-Based Payment* as revised, we expect to record additional deferred compensation, however, we have not yet quantified the impact on our financial statements but anticipate that implementation of this rule will result in an increase in reported losses.

Deferred Income Taxes

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

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

Investments

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

Valuation of Inventory

We value our inventory at the lower of the actual cost of our inventory, as determined using the first-in, first-out (FIFO) method, or its current estimated market value. We periodically review our physical inventory for obsolete items and provide a reserve upon identification of potential obsolete items.

Intangible Assets

Intangible assets are comprised of purchased technology with a finite life. The acquisition cost of purchased technology is capitalized and amortized over its useful life in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. We review the assigned useful life on an on-going basis for consistency with the period over which cash flows are expected to be generated from the asset and consider the potential for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The process of estimating useful lives and evaluating potential impairment is subjective and requires management to exercise judgment in making assumptions related to future cash flows and discount rates.

Results of Operations

Comparison of the Three Months Ended September 30, 2005 and 2004

Revenues. Revenues decreased from $5.7 million for the three months ended September 30, 2004 to $1.7 million for the three months ended September 30, 2005, a decrease of approximately 70%. Revenues from the sale of systems decreased primarily because of decrease in the number of systems delivered. Revenues from sales of disposable interventional devices, service and accessories increased to $524,000 for the three months ended September 30, 2005 from $342,000 for the three months ended September 30, 2004, an increase of approximately 53%. This increase was attributable to the increased base of installed systems.

Cost of Revenues. Cost of revenue decreased to $0.8 million for the three months ended September 30, 2005, from $2.7 million for the three months ended September 30, 2004, a decrease of approximately 71%. Cost of revenues decreased principally due to the decrease in the number of systems delivered. Certain of the systems sold during the three months ended September 30, 2004 were NIOBE I systems which carried a slightly lower average unit cost than the advanced NIOBE II system sold during the three months ended September 30, 2005. Overall gross margin for the three months ended September 30, 2005 was 53% compared to 52% for the same period in 2004.

Research and Development Expenses. Research and development expenses increased to $4.9 million for the three months ended September 30, 2005 from $3.9 million for the three months ended September 30, 2004, an increase of approximately 25%. The increase was due principally to the timing of certain project expenditures, increased salary expense and patent activity offset by the reallocation of responsibilities for certain clinical support activities to the marketing function.

General and Administrative Expenses. General and administrative expenses increased to $3.7 million for the three months ended September 30, 2005 from $1.8 million for the three months ended September 30, 2004, an increase of 108%. The increase was due to an increase in activity related to the commercialization of our products, including personnel and clinical trials as well as increased costs associated with legal, regulatory and financial compliance activities. In addition, the responsibility for certain clinical support activities were reallocated from research to the regulatory function within General and Administrative Expenses.

Sales and Marketing Expenses. Sales and marketing expenses increased to $4.3 million for the three months ended September 30, 2005 from $2.6 million for the three months ended September 30, 2004, an increase of approximately 65%. The increase related primarily to increased salary, benefits and travel expenses associated with hiring additional sales personnel and expanded marketing programs, including those associated with clinical support activities formerly in our Research and Development Expenses.

Interest Income. Interest income increased to $228,000 for the three months ended September 30, 2005 from $147,000 for the three months ended September 30, 2004, an increase of 55% due to higher realized rates on investments during the three months ended September 30, 2005.

Interest Expense. Interest expense decreased approximately 46% to $61,000 for the three months ended September 30, 2005 from $113,000 for the three months ended September 30, 2004 due to a lower average balance outstanding during the period.

Comparison of the Nine Months Ended September 30, 2005 and 2004

Revenues. Revenues increased to $12.9 million for the nine months ended September 30, 2005 from $12.7 million for the nine months ended September 30, 2004, an increase of approximately 2%. Revenues from the sale of systems increased primarily because of an increase the average selling price. Revenues from sales of disposable interventional devices, service and accessories increased to $1.7 million for the nine months ended September 30, 2005 from $1.2 million for the nine months ended September 30, 2004, an increase of approximately 41%. This increase was attributable to the increased base of installed systems.

Cost of Revenues. Cost of revenue decreased to $6.4 million for the nine months ended September 30, 2005 from $7.7 million for the nine months ended September 30, 2004, a decrease of approximately 17%. Cost of revenues decreased principally to the decrease in the number of systems sold. During the nine months ended September 30, 2005, the majority of the systems delivered were the advanced NIOBE II system whereas the majority of the systems delivered during the nine months ended September 30, 2004 were NIOBE I systems. Although the average cost of the NIOBE II systems exceed the average cost of the NIOBE I system, the significant increase in the average selling price of the system resulted in an overall gross margin of approximately 50% in the nine months ended September 30, 2005 compared to approximately 39% for the same period in 2004.

Research and Development Expenses. Research and development expenses decreased to $12.6 million for the nine months ended September 30, 2005 from $13.0 million for the nine months ended September 30, 2004, a decrease of approximately 3%. The decrease was due principally to the timing of certain project expenditures, including those projects related to integration of our system with those of our partners and the development of certain disposable interventional devices as well as reallocating responsibilities for certain clinical support activities to the marketing function, partially offset by an increase in personnel related costs.

General and Administrative Expenses. General and administrative expenses increased to $9.6 million for the nine months ended September 30, 2005 from $5.3 million for the nine months ended September 30, 2004, an increase of 82%. The increase was due to an increase in activity related to the commercialization of our products, including personnel and clinical trials as well as increased costs associated with regulatory and financial compliance activities and reporting, insurance, infrastructure and compliance costs associated with being a public company. In addition, the responsibility for certain clinical activities were reallocated from research to the regulatory function which is included within General and Administrative expenses.

Sales and Marketing Expenses. Sales and marketing expenses increased to $12.5 million for the nine months ended September 30, 2005 from $8.3 million for the nine months ended September 30, 2004, an increase of approximately 50%. The increase related primarily to increased salary, benefits and travel expenses associated with hiring additional sales personnel and expanded marketing programs, including those associated with clinical support activities formerly in our Research and Development expenses.

Royalty settlement. Royalty Settlement expenses related to the resolution of a patent licensing dispute with the University of Virginia were $2.9 million during the nine months ended September 30, 2005. There were no such settlement expenses in 2004.

Interest Income. Interest income increased $794,000 for the nine months ended September 30, 2005 from $462,000 for the nine months ended September 30, 2004, an increase of 72%. Interest income increased due to greater invested balances and higher realized rates on investments.

Interest Expense. Interest expense decreased approximately 46% to $181,000 for the nine months ended September 30, 2005 from $335,000 for the nine months ended September 30, 2004 due to a lower average balance outstanding during the period.

Liquidity and Capital Resources

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents, as well as investments. In addition to our cash and cash equivalent balances, we maintained $15.9 million and $34.6 million of investments in corporate debt securities, U.S. government agency notes and commercial paper at September 30, 2005 and December 31, 2004, respectively. At September 30, 2005, we had working capital of approximately $26.5 million, compared to $50.4 million at December 31, 2004.

The following table summarizes our cash flow by operating, investing and financing activities for each of nine month periods ended September 30, 2005 and 2004 (in thousands):

	Nine Months Ended September 30,	
	2005	2004
Cash Flow (used in) operating activities	$(28,635)	$(24,082)
Cash Flow provided by (used in) investing activities	17,886	(6,859)
Cash Flow provided by financing activities	232	57,361

Net cash (used in) operating activities. We used approximately $28.6 million and $24.1 million of cash for operating activities during the nine months ended September 30, 2005 and 2004, respectively, primarily as a result of operating losses during these periods. During the nine months ended September 30, 2005 the Company generated $0.8 million of cash from working capital activities compared to a use of $3.6 million during the same period in 2004. The cash provided by working capital purposes results primarily from the accruals related to integration activities with a strategic partner.

Net cash provided by (used in) investing activities. We generated approximately $17.9 million of cash from investing activities during the nine months ended September 30, 2005, substantially all from the maturity or sale of investments. This compares to a use of cash of $6.9 million during the nine months ended September 30, 2004, principally for the purchase of investments.

Net cash provided by financing activities. We generated approximately $232,000 from financing activities during the nine months ended September 30, 2005 due principally to the purchase of equity under the terms of our various stock option plans and our employee stock purchase plan offset by scheduled repayment of our equipment loans. We generated approximately $57.4 million from financing activities during the nine months ended September 30, 2004, primarily from the proceeds of our initial public offering and the sale of our Series E-2 preferred stock and related common stock warrants.

As of September 30, 2005, we had outstanding principal balances under various equipment loan agreements amounting to approximately $1.2 million. In November 2005, we entered into an amendment to our loan agreement to provide for a $1.0 million equipment loan advance towards equipment purchases, repayable over 36 months. In April 2004, we entered into an amendment to our working capital revolving line of credit to increase our borrowing capacity from $3.0 to $8.0 million. In November 2005, we entered into an amendment to this line to increase our borrowing capacity from $8.0 million to $10.0 million and to extend the maturity date of the line from April 2006 to April 2007. As of September 30, 2005 we had no outstanding borrowings under this working capital line of credit and had borrowing capacity of $8.0 million, subject to collateralization by qualifying receivables and inventory balances, with a maturity of April 2006.

These credit facilities are secured by substantially all of our assets. The credit agreements include customary affirmative, negative and financial covenants. For example, we are restricted from incurring additional debt, disposing of or pledging our assets, entering into merger or acquisition agreements, making certain investments, allowing fundamental changes to our business, ownership, management or business locations, and from making certain payments in respect of stock or other ownership interests, such as dividends and stock repurchases. Under our amended loan arrangements, we are required to maintain a ratio of “quick” assets (cash, cash equivalents, accounts receivable and short-term investments) to current liabilities minus deferred revenue of at least 1.25 to 1. We are also required under the credit agreements to maintain our primary operating account and the majority of our cash and investment balances in accounts with the lender. We are in compliance with all covenants of this agreement.

Throughout the remainder of 2005 and into 2006, we expect to continue the development and commercialization of our products, the continuation of our research and development programs and the advancement of new products into clinical development. In addition, we expect our selling, general and administrative expenses will continue to increase in order to support our product commercialization efforts and to implement procedures required by our status as a public company. 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 initial public offering, 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.

In November 2005, the Company entered into a six-month commitment with certain affiliated investors providing for the availability of $20 million in unsecured borrowings. This commitment can be drawn at any time during the initial six-month period commitment period. Any funds drawn will mature upon the earlier of a strategic financing of not less than $30 million or May 2006. The commitment period, as well as the maturity date on any funds drawn under the commitment, is subject to one six-month extension, through November 2006, at our sole election. The funds drawn would be subordinate to our bank debt but senior to other indebtedness. The lenders received five-year warrants to purchase shares of our common stock upon commitment of the funds. Additional five-year warrants would be issuable upon both drawing of the funds as well as our exercise of the extension of the commitment period or maturity date. We can cause the warrants to be exercised if certain conditions are satisfied before March 31, 2006. See Part II, Item 5, for a further description of this financing and the November 2005 amendment to our credit facility.

While we believe our existing cash, cash equivalents, investments, and existing lines of credit and other sources of borrowings described above will be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months, we cannot assure you that we will not require additional financing before that time. We also cannot assure you that such additional financing will be available on a timely basis on terms acceptable to us or at all, or that such financing will not be dilutive to our stockholders. If adequate funds are not available to us, we could be required to delay development or commercialization of new products, to license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize ourselves or to reduce the marketing, customer support or other resources devoted to our products, any of which could have a material adverse effect on our business, financial condition and results of operations.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) supersedes APB Opinion No. 25, which requires recognition of an expense when goods or services are provided. SFAS No. 123(R) requires the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation vests. As a result of the release of a recent Securities and Exchange Commission rule, we will be required to adopt the provisions of SFAS No. 123(R) effective January 1, 2006. These new accounting rules will lead to a decrease in reported earnings and we have not yet determined the exact impact SFAS No. 123(R) will have on our financial statements.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, an amendment of ARB No. 43. The amendments clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after September 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date SFAS No. 151 was issued. The adoption of SFAS No. 151 is not expected to have a material impact on the Company’s financial statements.

Factors That May Affect Future Results

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

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

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

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

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

Our collaborations with Siemens, Philips and J&J or others may fail, or we may not be able to enter into additional partnerships or collaborations in the future.

We are collaborating with Siemens, Philips and J&J and other parties to integrate our instrument control technology with their respective imaging products or disposable interventional devices and to co-develop additional disposable interventional devices for use with our Stereotaxis System. For the immediate future, a significant portion of our revenues from system sales will be derived from these integrated products. In addition, each of Siemens and Philips has agreed to provide post-installation maintenance and support services to our customers for our integrated systems.

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

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

Siemens, Philips and J&J, as well as some of our other collaborators, are large, global organizations with diverse product lines and interests that may diverge from our interests in commercializing our products. Accordingly, our collaborators may not devote adequate resources to our products, or may experience financial difficulties, change their business strategy or undergo a business combination that may affect their willingness or ability to fulfill their obligations to us. In particular, we have had only limited experience with respect to the integration of our system with Philips' imaging products.

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

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

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

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

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

- our inability to recruit and retain adequate numbers of qualified sales and marketing personnel;
- the inability of sales personnel to obtain access to or persuade adequate numbers of hospitals and physicians to purchase and use our products;
- unforeseen costs associated with maintaining and expanding an independent sales and marketing organization; and
- increased government scrutiny with respect to marketing activities in the health care industry.

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

We may lose or fail to attract physician "thought leaders."

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

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

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

Customers may choose to purchase competing products and not ours.

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

We also face competition from companies that are developing drugs or other medical devices or procedures to treat the conditions for which our products are intended. The medical device and pharmaceutical industries make

significant investments in research and development, and innovation is rapid and continuous. For example, we are aware that two private companies are developing non-magnetic assisted navigation devices that could compete directly with the Stereotaxis System. However, to the best of our knowledge, these products have not been commercialized. If these or other new products or technologies emerge that provide the same or superior benefits as our products at equal or lesser cost, it could render our products obsolete or unmarketable. We cannot be certain that physicians will use our products to replace or supplement established treatments or that our products will be competitive with current or future products and technologies.

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

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

We currently have outstanding purchase orders and other commitments for our systems. There can be no assurance that we will recognize revenue in any particular period or at all because some of our purchase orders and other commitments are subject to contingencies that are outside our control. In addition, these orders and commitments may be revised, modified or canceled, either by their express terms, as a result of negotiations or by project changes or delays. The installation of our system is inherently controlled by the cath lab construction or renovation process which comprises multiple stages, all of which are outside of our control. Although the actual installation of our system requires only a few weeks, and can be accomplished either by our staff or by subcontractors, successful installation of our system can be subjected to delays related to the overall construction or renovation process. If we experience any failures or delays in completing the installation of these systems, our reputation would suffer and we may not be able to sell additional systems. Substantial delays in the installation process also increase the risk that a customer would attempt to cancel a purchase order. This would have a negative effect on our revenues and results of operations.

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

We anticipate that our system will continue to have a lengthy sales cycle because it consists of a relatively expensive piece of capital equipment, the purchase of which requires the approval of senior management at hospitals, inclusion in the hospitals' cath lab budget process for capital expenditures, and, in some instances, a certificate of need from the state or other regulatory approval. In addition, our system has typically been installed six to eight months after the receipt of a purchase order from a hospital due to the construction cycle for the new or replacement interventional suite in which the equipment will be installed. In some cases, this time frame has been extended further because the interventional suite construction is part of a larger construction project at the customer and this may happen with existing or future purchase orders. These factors may contribute to substantial fluctuations in our quarterly operating results, particularly in the near term and during any other periods in which our sales volume is relatively low. As a result, in future quarters our operating results could fall below the expectations of securities analysts or investors, in which event our stock price would likely decrease.

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

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

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

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

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

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

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

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

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

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

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

We have incurred substantial net losses since inception, and we expect to incur substantial net losses in the balance of 2005 and 2006 as we seek additional regulatory approvals, launch new products and generally continue to scale up our sales, marketing and manufacturing operations to continue the commercialization of our products. At September 30, 2005 we had cumulative operating losses of approximately $145 million. Because we may not be successful in completing the development or commercialization of our technology, our return on these investments may be limited. Moreover, the extent of our future losses and the timing of profitability are highly uncertain, and we may never achieve profitable operations. If we require more time than we expect to generate significant revenues and achieve profitability, we may not be able to continue our operations. Our failure to achieve profitability could negatively impact the market price of our common stock. Even if we do become profitable, we may not be able to sustain or increase profitability on a quarterly or annual basis. Furthermore, even if we achieve significant revenues, we may choose to pursue a strategy of increasing market penetration and presence or expand or accelerate new product development or clinical research activities at the expense of profitability.

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

We depend on contract manufacturers to produce most of the components of our systems and other products such as our guidewires and electrophysiology catheters. We also depend on various third party suppliers for the magnets we use in our NIOBE cardiology magnet systems and for our guidewires and electrophysiology catheters. In addition, some of the components necessary for the assembly of our products are currently provided to us by a single supplier, including the magnets for our NIOBE cardiology magnet system, and we generally do not maintain

large volumes of inventory. Our reliance on these third parties involves a number of risks, including, among other things, the risk that:

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

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

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

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

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

We purchase the permanent magnets for our NIOBE cardiology magnet system from a manufacturer that uses material produced in Japan, and certain of the production work for these magnets is performed for this manufacturer in China. In addition, we purchase our magnets for our disposable interventional devices directly from a manufacturer in Japan, and a number of other components for our system in foreign jurisdictions, including components sourced locally in connection with installations. Any event causing a disruption of imports, including the imposition of import restrictions, could adversely affect our business. The flow of components from our vendors could also be adversely affected by financial or political instability in any of the countries in which the goods we purchase are manufactured, if the instability affects the production or export of product components from those countries. Trade restrictions in the form of tariffs or quotas, or both, could also affect the importation of those product components and could increase the cost and reduce the supply of products available to us. In addition, decreases in the value of the U.S. dollar against foreign currencies could increase the cost of products we purchase from overseas vendors.

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

We do not have extensive experience in manufacturing, assembling or testing our products on a commercial scale. In addition, for our NIOBE cardiology magnet systems, we subcontract the manufacturing of major components and complete the final assembly and testing of those components in-house. As a result, we may be unable to meet the expected future demand for our Stereotaxis System. We may also experience quality problems, substantial costs and unexpected delays in our efforts to upgrade and expand our manufacturing, assembly and testing capabilities. If we incur delays due to quality problems or other unexpected events, we will be unable to produce a sufficient supply of systems necessary to meet our future growth expectations. In addition, we design, test and manufacture a portion of the disposable interventional devices that are used with our NIOBE magnetic navigation system. In order to do so, we will need to retain qualified employees for our assembly and testing operations. In addition, we are dependent on the facilities we lease in St. Louis, Missouri and Maple Grove, Minnesota in order to manufacture and assemble certain products. We could encounter problems at either of these

facilities, which could delay or prevent us from assembling or testing our products or otherwise conducting operations. We intend to move our St. Louis operations to new facilities in the St. Louis area in at the end of 2005. Moving to a new facility could disrupt our systems assembly or testing activities, research and development activities and financial activities and might divert the attention of our management and other key personnel from our business operations.

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

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

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

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

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

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

Successfully commercializing our products will depend in part on not infringing patents held by third parties. It is possible that one or more of our products, including those that we have developed in conjunction with third parties, infringes existing patents. We may also be liable for patent infringement by third parties whose products we use or combine with our own and for which we have no right to indemnification. In addition, because patent applications are maintained under conditions of confidentiality and can take many years to issue, there may be applications now pending of which we are unaware and which may later result in issued patents that our products infringe. Whether a product infringes a patent involves complex legal and factual issues and may not become clear until finally determined by a court in litigation. Our competitors may assert that our products infringe patents held

by them. Moreover, as the number of competitors in our market grows, the possibility of a patent infringement claim against us increases. If we were not successful in obtaining a license or redesigning our products, we could be subject to litigation. If we lose in this kind of litigation, a court could require us to pay substantial damages or prohibit us from using technologies essential to our products covered by third-party patents. An inability to use technologies essential to our products would have a material adverse effect on our financial condition, results of operations and cash flow and could undermine our ability to continue operating as a going concern.

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

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

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

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

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

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

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

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

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

Our products are medical devices that are subject to extensive regulation in the U.S. and in foreign countries where we do business. Unless an exemption applies, each medical device that we wish to market in the U.S. must first receive either 510(k) clearance or pre-market approval, or PMA, from the U.S. Food and Drug Administration pursuant to the Federal Food, Drug, and Cosmetic Act. The FDA's 510(k) clearance process usually takes from four to 12 months, but it can take longer. The process of obtaining PMA approval is much more costly, lengthy and uncertain, generally taking from one to three years or even longer. Although we have 510(k) clearance for our current Stereotaxis System, including a limited number of disposable interventional devices, and are able to market our system commercially in the U.S., our business model relies significantly on revenues from additional disposable interventional devices for which there is no current FDA clearance or approval. We cannot commercially market our unapproved disposable interventional devices in the U.S. until the necessary clearance or approvals from the FDA have been received. Until such time we can only supply these devices to research institutions for permitted investigational use. In addition, we are working with third parties with whom we are co-developing disposable products. In some cases, these companies are responsible for obtaining appropriate regulatory clearance or approval to market these disposable devices. If these clearances or approvals are not received or are substantially delayed or if we are not able to offer a sufficient array of approved disposable interventional devices, we may not be able to successfully market our system to as many institutions as we currently expect, which could have a material adverse impact on our financial condition, results of operations and cash flow.

Furthermore, obtaining 510(k) clearances, pre-market approvals, or PMAs, or premarket approval supplements, or PMA supplements, from the FDA could result in unexpected and significant costs for us and consume management's time and other resources. The FDA could ask us to supplement our submissions, collect non-clinical data, conduct clinical trials or engage in other time-consuming actions, or it could simply deny our applications. In addition, even if we obtain a 510(k) clearance or PMA or PMA supplement approval, the clearance or approval could be revoked or other restrictions imposed if post-market data demonstrates safety issues or lack of effectiveness. We cannot predict with certainty how, or when, the FDA will act. Obtaining regulatory approvals in foreign markets entails similar risks and uncertainties and can involve additional product testing and additional administrative review periods. If we are unable to obtain the necessary regulatory approvals, our financial condition and cash flow may be adversely affected. Also, a failure to obtain approvals may limit our ability to grow domestically and internationally.

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

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

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

Even after product clearance or approval, we must comply with continuing regulation by the FDA and other authorities, including the FDA's Quality System Regulation, or QSR, requirements, labeling and promotional requirements and medical device adverse event and other reporting requirements. Any failure to comply with continuing regulation by the FDA or other authorities could result in enforcement action that may include suspension or withdrawal of regulatory approvals, recalling products, ceasing product marketing, seizure and detention of products, paying significant fines and penalties, criminal prosecution and similar actions that could limit product sales, delay product shipment and harm our profitability.

Additionally, any modification to an FDA 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance. Device modifications to a PMA approved device or its labeling may require either a new PMA or PMA supplement approval, which could be a costly and lengthy process. In the future, we may modify our products after they have received clearance or approval, and we may determine that new clearance or approval is unnecessary. We cannot assure you that the FDA would agree with any of our decisions not to seek new clearance or approval. If the FDA requires us to seek clearance or approval for any modification, we also may be required to cease marketing or recall the modified product until we obtain FDA clearance or approval which could also limit product sales, delay product shipment and harm our profitability. In addition, Congress could amend the Federal Food, Drug and Cosmetic Act, and the FDA could modify its regulations promulgated under this law in a way so as to make ongoing regulatory compliance more burdensome and difficult.

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

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

Our manufacturing processes must comply with the FDA's quality system regulation, or QSR, which covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging and shipping of our products. The FDA enforces the QSR through inspections. We cannot assure you that we would pass such an inspection. Failure to pass such an inspection could force a shut down of our manufacturing operations, a recall of our products or the imposition of other sanctions, which would significantly harm our revenues and profitability. Further, we cannot assure you that our key component suppliers are or will continue to be in compliance with applicable regulatory requirements and will not encounter any manufacturing difficulties. Any failure to comply with the FDA's QSR by us or our suppliers could significantly harm our available inventory and product sales.

Software or other defects may be discovered in our products.

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

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

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

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

- the federal healthcare program Anti-Kickback Law, which prohibits, among other things, persons from soliciting, receiving, offering or paying remuneration, directly or indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal health care programs such as the Medicare and Medicaid programs;
- federal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, and which may apply to entities like us which provide coding and billing advice to customers;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which prohibits executing a scheme to defraud any health care benefit program or making false statements relating to health care matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information;
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts; and
- federal self-referral laws, such as STARK, which prohibits a physician from making a referral to a provider of certain health services in which the physician or the physician's family member has a financial interest.
- the federal Foreign Corrupt Practices Act, which makes it unlawful to bribe foreign government officials to obtain or retain business.
- Regulations of the FDA, prohibiting, among other practices, false or misleading regulatory submissions and promotional activities.

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

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

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

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

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

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

We are highly dependent on the principal members of our management and scientific staff, in particular Bevil J. Hogg, our President and Chief Executive Officer and Michael P. Kaminski, our Chief Operating Officer. In order to pursue our plans and accommodate planned growth, we may choose to hire additional personnel. Attracting and retaining qualified personnel will be critical to our success, and competition for qualified personnel is intense. We may not be able to attract and retain personnel on acceptable terms given the competition for qualified personnel among technology and healthcare companies and universities. The loss of any of these persons or our inability to attract and retain other qualified personnel could harm our business and our ability to compete. In addition, Douglas M. Bruce, our Senior Vice President, Research & Development, coordinates our scientific staff and the research and development projects they undertake; the loss of Mr. Bruce or other members of our scientific staff may significantly delay or prevent product development and other business objectives.

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

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

We face currency and other risks associated with international sales.

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

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

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

Risks Related To an Investment in Our Securities

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

As of September 30, 2005, our executive officers, directors and individuals or entities affiliated with them beneficially own or control a substantial percentage of the outstanding shares of our common stock. Accordingly, these executive officers, directors and their affiliates, acting as a group, will have substantial influence over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction. These stockholders may also delay or prevent a change of control, even if such a change of control would benefit our other stockholders. This significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

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

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

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

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

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

In addition, under our alliance with J&J, either party may terminate the alliance under certain circumstances involving a "change of control" of Stereotaxis. Any termination must be effected within 90 days of the change of control, but would be effective one year after the change of control. If we terminate under this provision, we must pay a termination fee to J&J equal to 5% of the total equity value of Stereotaxis in the change of control transaction, up to a maximum of $10 million. We also agreed to notify J&J if we reasonably consider that we are engaged in substantive discussions in respect of the sale of the company or substantially all of our assets. These provisions may similarly discourage a takeover and negatively affect our share price as described above.

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

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

As of September 30, 2005, we had outstanding 27,683,704 shares of common stock.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and NASDAQ National Market rules are creating uncertainty for public companies. We continue to monitor and evaluate developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional compliance costs we may incur or the timing of such costs. These new or changed laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by courts and regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Maintaining appropriate standards of corporate governance and public disclosure may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, if we fail to comply with new or changed laws, regulations and standards, regulatory authorities may initiate legal proceedings against us and our business and reputation may be harmed.

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

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

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

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

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

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

- actual or anticipated variations in our results of operations or those of our competitors;
- the receipt or denial of regulatory approvals;

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures: The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the report that it files or submits under the Exchange Act.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

The Company did not make any unregistered sales of equity securities. The Company does not have any programs to repurchase shares of its common stock and no such repurchases were made during the three months ended September 30, 2005. See Part II, Item 5 below for a description of sales of certain equity securities to affiliated purchasers in November 2005.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 5. Other Information

Note and Warrant Purchase Agreement

Effective November 10, 2005, we entered into a Note and Warrant Purchase Agreement with Sanderling Venture Partners VI Co-Investment Fund, L.P. and Alafi Capital Company LLC relating to (i) the commitment by these investors to lend to us up to an aggregate principal amount of $20 million (the "Committed Funds") to be evidenced by promissory notes (the "Notes"), and (ii) the issuance of warrants to purchase shares of our common stock. The private placement was conducted pursuant to Section 4(2) of the Securities Act of 1933, as amended. Net proceeds from the private placement, if drawn, would be used for working capital and other general corporate purposes.

The Committed Funds will be available for us to draw until, and the Notes will become due and payable upon, the earlier of May 10, 2006 or the receipt by us of not less than $30 million in connection with a future equity or debt strategic financing with a medical device or technology company (the "Commitment Period"). We have the option to extend the Commitment Period and the term of the Notes through November 10, 2006. We may elect to draw on the Committed Funds in minimum amounts of $2 million at any time during the Commitment Period. The interest rate on the Notes will be the prime rate as of the date of the advance less 1%, but in no event less than 6% per annum. All interest and unpaid principal on drawn funds will be due upon the expiration of the term of the Notes. The Notes may be prepaid by us, in whole or in part, at any time without penalty.

In addition, the investors will receive five-year warrants to purchase shares of our common stock at an exercise price equal to the average daily closing price of our common stock for 10 consecutive trading days commencing November 4, 2005 and ending on November 17, 2005. Upon determination of the exercise price, we will issue to each investor warrants to purchase shares of common stock equal to the portion of such investor's Committed Funds multiplied by 10%, divided by the exercise price. Upon drawing down on the Committed Funds, we will issue additional warrants to each investor equal to such investor's pro rata portion of Committed Funds drawn multiplied by 10%, divided by the exercise price. If we elect to extend the Commitment Period or the term of the Notes to November 10, 2006, we will issue additional warrants to each investor equal to the portion of such investor's Committed Funds multiplied by 10%, divided by the exercise price. We may cause the warrants to be exercised if certain conditions are satisfied on or before March 31, 2006. In connection with the private placement, we agreed to file a resale registration statement on Form S-3 covering the shares of common stock underlying the common stock warrants within 60 days of the closing.

Our chairman, Fred A. Middleton, is a managing director of an entity that is the general partner of Sanderling Venture Partners VI Co-Investment Fund, L.P. Christopher Alafi, one of our board members, is a manager of Alafi Capital Company.

Amendment to Credit Facility

On November 8, 2005, we and Silicon Valley Bank ("SBV") entered into a Second Loan Modification Agreement (the "Second Modification Agreement") to the company's Loan and Security Agreement with SVB dated as of April 30, 2004, as amended by a First Loan Second Modification Agreement dated as of November 3, 2004, to provide working capital and equipment financing to us.

The Second Modification Agreement increased the amount available to us under a working capital line ("the "Revolving Line") from $8.0 million to $10.0 million based on eligible accounts receivable and inventory balances and extended the maturity date of the line from April 2006 to April 2007. The Second Modification Agreement provides for a reduction in interest rates for principal amounts outstanding under the on the Revolving Line from prime plus 1.25% to prime plus 0.75%. Under the terms of the agreement, we are required to pay a commitment fee for the Revolving Line of $25,000 on April 28, 2006. We are required to pay a facility fee of 0.375% per annum of the average unused portion of the Revolving Line.

The Second Modification Agreement further provides for an advance (the "2005 Equipment Line") in an amount not exceeding $1.0 million to finance eligible equipment purchased between November 8, 2005 and November 8, 2006. Interest on the principal amount outstanding for the 2005 Equipment Line will accrue at the floating per annum rate equal to the prime rate plus 1.5%. The 2005 Equipment Line is payable in 36 consecutive monthly installments beginning on December 1, 2005. The 2005 Equipment Line may be prepaid upon payment of a fee but may not be re-borrowed. Under the terms of the Agreement, we are required to pay a commitment fee of $10,000 for the 2005 Equipment Line.

The Second Modification Agreement amends previous financial covenants to require us to maintain a ratio of quick assets to current liabilities minus deferred revenue of at least 1.25 to 1.0 and to direct each domestic or foreign account debtor to remit payments due with respect to the accounts to a lockbox account established with SVB.

As of September 30, 2005, we had approximately $1.2 million due under our existing equipment lines with SVB. We currently do not have any outstanding borrowings under our working capital line.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits: See Exhibit Index herein.

STEREOTAXIS, INC.
SIGNATURES

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

STEREOTAXIS, INC.
(Registrant)

Date: November 14, 2005

By: /s/ Bevil J. Hogg

Bevil J. Hogg, President and
Chief Executive Officer

Date: November 14, 2005

By: /s/ James M. Stolze

James M. Stolze, Vice President and
Chief Financial Officer

EXHIBIT INDEX

Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Company
3.2(1)	Amended and Restated Bylaws of the Company
4.1	Form of Note to be issued pursuant to that certain Note and Warrant Purchase Agreement, dated as of November 10, 2005, between the Company and the investors named therein
4.2	Form of Warrant to be issued pursuant to that certain Note and Warrant Purchase Agreement, dated as of November 10, 2005, between the Company and the investors named therein
10.1	Note and Warrant Purchase Agreement, dated as of November 10, 2005, between the Company and the investors named therein
10.2	Second Loan Modification Agreement, dated as of November 8, 2005, between Silicon Valley Bank and the Company
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-K filed March 29, 2005 (File No. 000-50884), and is incorporated herein by reference.

Exhibit 4.1

Form of Note

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

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

STEREOTAXIS, INC.
TERM NOTE

$_____ _____, 200_
St. Louis, Missouri

1. General. Stereotaxis, Inc., a Delaware corporation (the "Company"), for value received, hereby promises to pay to the order of _____(the "Holder") the principal sum of _____Dollars ($_____), on the date (the "Maturity Date") which is the earlier of (i) May 10, 2006, or (ii) the date upon which the Company obtains up to Thirty Million Dollars ($30,000,000) of Strategic Financing (as such term is defined in the Purchase Agreement referred to below), in such coin or currency of the United States of America as at the time of payment shall be legal tender therein for the payment of public and private debts, and to pay interest on the unpaid balance of the principal hereof from the date hereof, at the times and in the amounts as provided in that certain Note and Warrant Purchase Agreement between the Company and the Holder and certain other lenders set forth therein, dated November 10, 2005, as the same may from time to time be amended, modified or supplemented (the "Purchase Agreement"); provided that the Company shall have the option, pursuant to the terms of the Purchase Agreement, to extend the Maturity Date to November 10, 2006. Notice of extension of the Maturity Date shall be given by the Company by mail and shall be mailed to the Holder not less than 30 days prior to the date fixed for such Maturity Date extension. All payments of principal and interest on this Note shall be made at the offices of the Company. In the event that the principal amount of this Note is not paid in full when such amount becomes due and payable, interest at the rate of **[**_____**]** percent (**[**____]%) (the "Default Rate") shall continue to accrue on the balance of any unpaid principal until such balance is paid.

This Note is issued in connection with the Purchase Agreement and the Holder is subject to certain restrictions set forth in this Note and the Purchase Agreement and shall be entitled to certain rights and privileges set forth in the same.

2. Optional Prepayment. The Company may at any time, prepay the unpaid principal amount of this Note, or any part thereof, without penalty or premium, but with interest accrued to the date fixed for prepayment. Notice of prepayment shall be given by the Company by mail and shall be mailed to the Holder not less than 15 days prior to the date fixed for prepayment. Upon giving of notice of prepayment as aforesaid, this Note (or the portion thereof to be prepaid, as the case may be) shall on the prepayment date specified in such notice become due and payable; and from and after the prepayment date so specified (unless the Company shall default in making such prepayment) interest on this Note (or the portion thereof to be prepaid, as the case may be) shall cease to accrue and, on presentation and surrender hereof to the Company for cancellation, this Note (or the portion thereof to be prepaid as the case may be) shall be paid by the Company at the prepayment price aforesaid.

3. Events of Default. If any of the events specified in this Section 3 shall occur (herein individually referred to as an "Event of Default"), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Default in the payment of the principal and unpaid accrued interest of this Note when due and payable if such default is not cured by the Company within ten (10) days after the Holder has given the Company written notice of such default; or

(ii) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Code, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action; or

(iii) If, within sixty (60) days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company stayed, or if the stay of any such order or proceeding shall thereafter be set aside, or if, within sixty (60) days after the appointment without the consent or acquiescence of the Company of any trustee, receiver or liquidator of the Company or of all or any substantial part of the properties of the Company, such appointment shall not have been vacated.

At any time that the unpaid principal balance of this Note, together with all accrued and unpaid interest owing thereon, shall have become due and payable in full pursuant to this Section 3, the aggregate of all such sums shall thereafter bear interest, both before and after judgment, at the Default Rate until such sums have been paid. In such event, all payments made thereafter shall be applied first to unpaid interest hereon, then to the principal of this Note.

4. Subordination. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as hereinafter defined.

4.1. Senior Indebtedness. As used in this Note, the term "Senior Indebtedness" shall mean the principal of and unpaid accrued interest on: (i) all indebtedness of the Company to Silicon Valley Bank or its affiliates or any other banks, commercial finance lenders or similar financial institutions, which is for money borrowed by the Company (whether or not secured) ("Financial Institution Debt"), and (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Financial Institution Debt, or any indebtedness arising from the satisfaction of such Financial Institution Debt by a guarantor.

4.2. Default on Senior Indebtedness. If there should occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation or any other marshalling of the assets and liabilities of the Company, then (i) no amount shall be paid by the Company in respect of the principal of or interest on this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the Holder of this Note that shall assert any right to receive any payments in respect of the principal of and interest on this Note, except subject to the payment in full of the principal of and interest on all of the Senior Indebtedness then outstanding. If there occurs an event of default that has been declared in writing with respect to any Senior Indebtedness, or in the instrument under which any Senior Indebtedness is outstanding, permitting the holder of such Senior Indebtedness to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note.

4.3. Effect of Subordination. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 4 to receive cash, securities or other properties otherwise payable or deliverable to the Holder of this Note, nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

4.4. Subrogation. Subject to the payment in full of all Senior Indebtedness and until this Note shall be paid in full, the Holder shall be subrogated to the rights of the holders of Senior Indebtedness (to the extent of payments or distributions previously made to such holders of Senior Indebtedness pursuant to the provisions of Section 4.2 above) to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for the purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness.

4.5. Undertaking. By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the lender of any Senior Indebtedness in order to implement the foregoing provisions of this Section 4.

4.6. Subordination of Junior Indebtedness. In connection with the Company's incurrence of any future convertible indebtedness or other indebtedness of the Company in respect of borrowed money evidenced by bonds, notes, debentures or similar instruments or letters of credit that is other than Financial Institution Debt ("Junior Indebtedness"), the Company agrees that any such Junior Indebtedness shall be subordinate to this Note on substantially the same terms as are provided under this Article 4.

5. Warrant Agreement. Warrants shall be issued by the Company pursuant to the Purchase Agreement, which together with the Form of Warrant to be issued thereunder shall govern all aspects of the Warrants, including without limitation the term, exercise price and all adjustments to the number of shares of common stock issuable upon exercise thereof.

6. Assignment. Subject to the restrictions on transfer described in Section 12 below, the rights and obligations of the Company and the Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

7. Waiver and Amendment. Any provision of this Note may be amended, waived or modified pursuant to the terms of the Purchase Agreement.

8. Heading; References. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

9. Notices. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or if faxed or mailed by registered or certified mail, postage prepaid, at the respective addresses of the parties as set forth herein. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally delivered or when deposited in the mail or faxed in the manner set forth above and shall be deemed to have been received when delivered.

10. No Stockholder Rights. Nothing contained in this Note shall be construed as conferring upon the Holder or any other person the right to vote or to consent or to receive notice as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, excluding that body of law relating to conflict of laws.

12. Transfer Restrictions. The Holder agrees that in no event will it make a transfer or disposition of any of this Note (other than pursuant to an effective registration statement under the 1933 Act), unless and until (i) it shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the disposition and assurance that the proposed disposition is in compliance with all applicable laws, and (ii) if reasonably requested by the Company, at the expense of such Holder or its transferee, it shall have furnished to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that such transfer may be made without registration under the 1933 Act. Notwithstanding the foregoing, no formal notice or opinion of counsel shall be required for the transfer by an Holder to: (x) any partner of a Holder or to a retired partner of a Holder, who retires after the date of this Agreement, (y) the estate of any such partner or a retired partner or for the transfer by gift, will or intestate succession of any partner to his spouse or lineal descendants or ancestors or (z) any entity which is a wholly-owned subsidiary of the Holder or which is under common control with the Holder; provided, however, in all cases where no legal opinion is required that the transferee shall agree in writing to be subject to the terms of this Agreement to the same extent as if it were the original Holder hereunder.

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IN WITNESS WHEREOF, the Company has caused this Note to be issued this __ day of November, 2005.

STEREOTAXIS, INC.

By: _____

Name:
Title:

Name of Holder:

Address: _____

_____

_____

Exhibit 4.2

Form of Warrant

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER ANY STATE SECURITIES LAWS, IN RELIANCE UPON EXEMPTIONS FROM REGISTRATION FOR NON-PUBLIC OFFERINGS. THIS SECURITY MAY NOT BE SOLD OR TRANSFERRED UNLESS IT IS REGISTERED UNDER THE ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR UNLESS THE ISSUER RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

Issuance Date: _____, 2005 Warrant No.: _____

STEREOTAXIS, INC.

COMMON STOCK PURCHASE WARRANT

TO PURCHASE SHARES OF
COMMON STOCK, $0.001 PAR VALUE PER SHARE

This is to certify that, FOR VALUE RECEIVED, _____ ("Warrantholder"), is entitled to purchase, subject to the provisions of this Common Stock Purchase Warrant ("Warrant"), from Stereotaxis, Inc., a corporation organized under the laws of Delaware ("Company"), at any time and from time to time after the issuance date hereof ("Exercise Date") but not later than 5:00 P.M., Eastern time, on the fifth (5th) anniversary of such issuance date ("Expiration Date"), _____ shares ("Warrant Shares") of Common Stock, $0.001 par value ("Common Stock"), of the Company, at an exercise price per share equal to $_____ (the exercise price in effect from time to time hereafter being herein called the "Warrant Price"). 1 The number of Warrant Shares purchasable upon exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time as described herein.

This Warrant has been issued pursuant to the terms of the Note and Warrant Purchase Agreement ("Purchase Agreement") dated November 10, 2005 between the Company and the Warrantholder. Capitalized terms used herein and not defined shall have the meaning specified in the Purchase Agreement.

1. Registration. The Company shall maintain books for the transfer and registration of the Warrant. Upon the initial issuance of the Warrant, the Company shall issue and register the Warrant in the name of the Warrantholder.

2. Transfers. As provided herein, this Warrant may be transferred only pursuant to a registration statement filed under the Securities Act of 1933, as amended ("Securities Act"), or an exemption from registration thereunder. Subject to such restrictions, the Company shall transfer this Warrant from time to time, upon the books to be maintained by the Company for that purpose, upon surrender hereof for transfer properly endorsed or accompanied by appropriate instructions for transfer upon any such transfer, and a new Warrant shall be issued to the transferee and the surrendered Warrant shall be canceled by the Company. References to Warrantholder or holder shall include any such transferee.

1 To be determined in accordance with the Purchase Agreement.

3. Exercise of Warrant.

(a) Subject to the provisions hereof, the Warrantholder may exercise this Warrant to purchase the Warrant Shares, in whole or in part, at any time and from time to time on and after the Exercise Date and before the Expiration Date upon surrender of the Warrant, together with delivery of the duly executed Warrant exercise form attached hereto (the "Exercise Agreement") (which may be by fax), to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), and upon payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company of the Warrant Price for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record owner of such shares, as of the close of business on the date on which the completed Exercise Agreement shall have been delivered to the Company (or such later date as may be specified in the Exercise Agreement). Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding five (5) business days, after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be requested by the holder hereof and shall be registered in the name of such holder or such other name as shall be designated by such holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of such certificates, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

(b) If the per share Closing Price of the Common Stock shall exceed an amount that is three (3) times the Warrant Price for 20 consecutive Trading Days ending no later than March 31, 2006, the Company may require that the Warrantholder exercise this Warrant, provided that such notice may be given no later than 5:00 p.m. St. Louis time April 10, 2006. Such exercise shall be treated as if a voluntary exercise had been effected pursuant to Section 3 above. The Warrants shall be exercised on such date specified in the notice, but no fewer than three and no more than 10 Trading Days following the date of such Notice.

(c) Certain Definitions.

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

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

4. Cashless Exercise. The Warrantholder may, at its election exercised in its sole discretion, exercise this Warrant and, in lieu of making the cash payment otherwise

contemplated to be made to the Company upon such exercise in payment of the Warrant Price for the Warrant Shares specified in the Exercise Agreement, elect instead to receive upon such exercise the "Net Number" of shares of Common Stock determined according to the following formula (a "Cashless Exercise"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A= the total number of shares with respect to which this Warrant is then being exercised.

B= the closing sale price of the Common Stock on the Nasdaq National Market on the trading day immediately preceding the date of the Exercise Notice.

C= the Warrant Price then in effect for the applicable Warrant Shares at the time of such exercise.

5. Compliance with the Securities Act of 1933. Neither this Warrant nor the Common Stock issued upon exercise hereof nor any other security issued or issuable upon exercise of this Warrant may be offered or sold except as provided in this Warrant and in conformity with the Securities Act of 1933, as amended, and then only against receipt of an agreement of such person to whom such offer of sale is made to comply with the provisions of this Section 5 with respect to any resale or other disposition of such security. The Company may cause the legend set forth on the first page of this Warrant to be set forth on each Warrant or similar legend on the Warrant Shares or any other security issued or issuable upon exercise of this Warrant until the Warrant Shares have been registered for resale under the Investor Rights Agreement, unless counsel for the Company is of the opinion as to any such security that such legend is unnecessary.

6. Payment of Taxes. The Company will pay any documentary stamp taxes attributable to the initial issuance of Warrant Shares issuable upon the exercise of the Warrant; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificates for Warrant Shares in a name other than that of the registered holder of this Warrant in respect of which such shares are issued. The holder shall be responsible for income taxes due under federal or state law, if any such tax is due.

7. Mutilated or Missing Warrants. In case this Warrant shall be mutilated, lost, stolen, or destroyed, the Company shall issue in exchange and substitution of and upon cancellation of the mutilated Warrant, or in lieu of and substitution for the Warrant lost, stolen or destroyed, a new Warrant of like tenor and for the purchase of a like number of Warrant Shares, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction of the Warrant, and with respect to a lost, stolen or destroyed Warrant, reasonable indemnity or bond with respect thereto, if reasonably requested by the Company.

8. Reservation of Common Stock. The Company hereby represents and warrants that there have been reserved, and the Company shall at all applicable times keep

reserved, out of the authorized and unissued Common Stock, a number of shares sufficient to provide for the exercise of the rights of purchase represented by the Warrant in full (without regard to any restrictions on beneficial ownership contained herein), and the transfer agent for the Common Stock, including every subsequent transfer agent for the Common Stock or other shares of the Company's capital stock issuable upon the exercise of any of the right of purchase aforesaid ("Transfer Agent"), shall be irrevocably authorized and directed at all times to reserve such number of authorized and unissued shares of Common Stock as shall be requisite for such purpose. The Company agrees that all Warrant Shares issued upon exercise of the Warrant in accordance with its terms shall be, at the time of delivery of the certificates for such Warrant Shares, duly authorized, validly issued, fully paid and non-assessable shares of Common Stock of the Company.

9. Warrant Price. The Warrant Price, subject to adjustment as provided in Section 10 hereof, shall, if payment is made in cash or by certified check, be payable in lawful money of the United States of America.

10. Adjustment of Warrant Exercise Price and Number of Shares. If the Company at any time after the date of issuance of this Warrant subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Warrant Price in effect immediately prior to such subdivision will be proportionately reduced and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately increased. If the Company at any time after the date of issuance of this Warrant combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Warrant Price in effect immediately prior to such combination will be proportionately increased and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately decreased. Any adjustment under this Section 10 shall become effective at the close of business on the date the subdivision or combination becomes effective.

11. Replacement Warrants. The Company agrees that within ten (10) business days after any request from time to time of the Warrantholder, it shall deliver to such holder a new Warrant in substitution of this Warrant which is identical in all respects except that the then Warrant Price shall be appropriately specified in the Warrant, and the Warrant shall specify the fixed number of Warrant Shares into which this Warrant is then exercisable. Such changes are intended not as amendments to the Warrant but only as clarification of the adjustment in the preceding Section for convenience purposes, and such adjustments shall not affect any provisions concerning adjustments to the Warrant Price or number of Warrant Shares contained herein.

12. Fractional Interest. The Company shall not be required to issue fractions of Warrant Shares upon the exercise of the Warrant. If any fraction of a Warrant Share would, except for the provisions of this Section, be issuable upon the exercise of the Warrant (or specified portions thereof), the Company shall round such calculation to the nearest whole number and disregard the fraction.

13. Benefits. Nothing in this Warrant shall be construed to give any person, firm or corporation (other than the Company and the Warrantholder) any legal or equitable right, remedy or claim, it being agreed that this Warrant shall be for the sole and exclusive benefit of the Company and the Warrantholder.

14. Notices to Warrantholder. Upon the happening of any event requiring an adjustment of the Warrant Price, the Company shall forthwith give written notice thereof to the Warrantholder at the address appearing in the records of the Company, stating the adjusted Warrant Price and the adjusted number of Warrant Shares resulting from such event and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. In the event of a dispute with respect to any such calculation, the certificate of the Company's independent certified public accountants shall be conclusive evidence of the correctness of any computation made, absent manifest error. Failure to give such notice to the Warrantholder or any defect therein shall not affect the legality or validity of the subject adjustment.

15. Identity of Transfer Agent. The Transfer Agent for the Common Stock is Bank of New York. Forthwith upon the appointment of any subsequent transfer agent for the Common Stock or other shares of the Company's capital stock issuable upon the exercise of the rights of purchase represented by the Warrant, the Company will fax to the Warrantholder a statement setting forth the name and address of such transfer agent.

16. Notices. Any notice pursuant hereto to be given or made by the Warrantholder to or on the Company shall be sufficiently given or made if delivered personally or by facsimile or if sent by an internationally recognized courier, addressed as follows:

Stereotaxis, Inc.
4041 Forest Park Avenue
St. Louis, Missouri 63108
(314) 615-6940
Fax: (314) 615-6922
Attention: Chief Financial Officer

or such other address as the Company may specify in writing by notice to the Warrantholder complying as to delivery with the terms of this Section 16.

Any notice pursuant hereto to be given or made by the Company to or on the Warrantholder shall be sufficiently given or made if personally delivered or if sent by an internationally recognized courier service by overnight or two-day service, to the address set forth on the books of the Company or, as to each of the Company and the Warrantholder, at such other address as shall be designated by such party by written notice to the other party complying as to delivery with the terms of this Section 16.

All such notices, requests, demands, directions and other communications shall, when sent by courier, be effective two (2) days after delivery to such courier as provided and addressed as aforesaid. All faxes shall be effective upon receipt.

17. Registration Rights. The holder of this Warrant is entitled to the benefit of certain registration rights in respect of the Warrant Shares as provided in the Purchase Agreement.

18. Successors. All the covenants and provisions hereof by or for the benefit of the Warrantholder shall bind and inure to the benefit of its respective successors and assigns hereunder.

19. Governing Law. This Warrant shall be deemed to be a contract made under the laws of the State of Delaware, without giving effect to its conflict of law principles, and for all purposes shall be construed in accordance with the laws of said State.

20. Absolute Obligation to Issue Warrant Shares. The Company's obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the holder hereof to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any person or entity or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the holder hereof or any other Person of any obligation to the Company or any violation or alleged violation of law by the holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the holder hereof in connection with the issuance of Warrant Shares. The Company will at no time close its shareholder books or records in any manner which interferes with the timely exercise of this Warrant.

21. Assignment, etc. The Warrantholder agrees that in no event will it make a transfer or disposition of any of this Warrant (other than pursuant to an effective registration statement under the 1933 Act), unless and until (i) it shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the disposition and assurance that the proposed disposition is in compliance with all applicable laws, and (ii) if reasonably requested by the Company, at the expense of such Warrantholder or its transferee, it shall have furnished to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that such transfer may be made without registration under the 1933 Act. Notwithstanding the foregoing, no formal notice or opinion of counsel shall be required for the transfer by an Warrantholder to: (x) any partner of a Warrantholder or to a retired partner of a Warrantholder, who retires after the date of this Agreement, (y) the estate of any such partner or a retired partner or for the transfer by gift, will or intestate succession of any partner to his spouse or lineal descendants or ancestors or (z) any entity which is a wholly-owned subsidiary of the Warrantholder or which is under common control with the Warrantholder; provided, however, in all cases where no legal opinion is required that the transferee shall agree in writing to be subject to the terms of this Agreement to the same extent as if it were the original Warrantholder hereunder.

IN WITNESS WHEREOF, the Company has caused this Common Stock Purchase Warrant to be duly executed as of the date first written above.

STEREOTAXIS, INC.

By: _____

Name:
Title:

Attest:

Sign: _____

Print Name:

STEREOTAXIS, INC.
WARRANT EXERCISE FORM

Stereotaxis, Inc.

4041 Forest Park Avenue

St. Louis, Missouri 63108

Fax: (314)0615-6922

Attention: Chief Financial Officer

This undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Common Stock Purchase Warrant ("Warrant") for, and to purchase thereunder _____ shares of Common Stock ("Warrant Shares") provided for therein, and requests that certificates for the Warrant Shares be issued as follows:

Name: _____

Address: _____

_____

_____

and, if the number of Warrant Shares shall not be all the Warrant Shares purchasable upon exercise of the Warrant, that a new Warrant for the balance of the Warrant Shares.

Dated: _____ Signature: _____

Print Name: _____

Address: _____

_____

_____

STEREOTAXIS, INC.

NOTE AND WARRANT PURCHASE AGREEMENT

THIS NOTE AND WARRANT PURCHASE AGREEMENT (this "Agreement") is made as of November 10, 2005 by and among Stereotaxis, Inc., a Delaware corporation (the "Company") and the persons on the attached signature pages (sometimes hereinafter individually referred to as a "Lender" or collectively as the "Lenders").

Recitals

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

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

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

1. The Notes.

1.1 The Notes. The Lenders are hereby committing to make available to the Company up to an aggregate original principal amount as set forth on the attached Schedule 1.1 (the "Committed Funds") during the Commitment Period, as defined in Section 1.2. Subject to and upon the terms and conditions set forth herein, and upon the draw by the Company and advance of funds by the Lenders as set forth in Section 1.3, the Company shall issue and sell to each Lender, and each Lender shall purchase from the Company, the Company's promissory notes (the "Notes"), in the form attached hereto as Exhibit A, up to the aggregate original principal amount set forth on the attached Schedule 1.1.

1.2 Commitment Period. The Lenders without condition make the Committed Funds available for the Company's use for a term which shall terminate upon the earlier of (i) May 10, 2006, and (ii) the date on which the Company actually receives additional financing from an institution engaged in the business of providing goods or services in the field of medical technology or devices in the form of new equity and/or new debt that is not subject to escrow or other condition(s) ("Strategic Financing") in the aggregate amount of not less than Thirty Million Dollars ($30,000,000), (the "Commitment Period"). The Company shall have the option to extend the Commitment Period through November 10, 2006. To extend the Commitment Period, the Company shall notify the Lender of its election in writing, pursuant to the Notification Provision set out in Section 6.8, no less than 15 days before the original Commitment Period is scheduled to expire. In no event shall the Commitment Period extend beyond November 10, 2006.

1.3 Election to Draw on Committed Funds. The Company shall be entitled to draw on the Committed Funds in no more than ten (10) tranches, in minimum amounts of $2,000,000 each, up to an aggregate amount as set forth on the attached Schedule 1.1. To draw on the Committed Funds, the Company shall notify the Lender of its election in writing, pursuant to the

Notification Provision set out in Section 6.8, no less than fourteen (14) days before the requested advance. The Lender shall advance to the Company such amount no later than fourteen (14) days after receiving such notification from the Company. There shall be no preconditions or additional requirements with respect to the Company's ability to draw on the Committed Funds. The Lenders hereby acknowledge that the determination as to whether to make a draw at any time shall be at the discretion of the executive officers of the Company.

1.4 Maturity Date. All amounts due under the Note shall become due and payable on the earlier of (i) May 10, 2006, and (ii) the date on which the Company procures Strategic Financing in the amount of not less than Thirty Million Dollars ($30,000,000), (the "Maturity Date"). The Company shall have the option to extend the Maturity Date to November 10, 2006. To extend the Maturity Date, the Company shall notify the Lenders of its election in writing, pursuant to the Notification Provision set out in Section 6.8, no less than thirty days before the original Maturity Date. In no event shall the Maturity Date be extendable to beyond November 10, 2006.

1.5 Optional Prepayment. The Company may at any time, prepay the unpaid principal amount of the Note, or any part thereof, without penalty or premium, but with interest accrued to the date fixed for prepayment. Notice of prepayment shall be given by the Company by mail and shall be mailed to the Lenders not less than 30 days prior to the date fixed for prepayment. Upon giving of notice of prepayment as aforesaid, the Note (or the portion thereof to be prepaid, as the case may be) shall on the prepayment date specified in such notice become due and payable; and from and after the prepayment date so specified (unless the Company shall default in making such prepayment) interest on the Note (or the portion thereof to be prepaid, as the case may be) shall cease to accrue and, on presentation and surrender hereof to the Company for cancellation, the Note (or the portion thereof to be prepaid as the case may be) shall be paid by the Company at the prepayment price aforesaid.

1.6 Interest. The Company shall pay interest on the unpaid balance of each advance under the Notes at a per annum interest rate equal to the greater of (i) six percent (6%) and (ii) the Prime Rate as published in *The Wall Street Journal* as of the date of such advance hereunder less one percent (1%). Such interest shall be paid by the Company to the Lenders with the unpaid principal balance on the Maturity Date.

2. Warrants.

2.1 In consideration for entering into and performing this Agreement, the Company shall grant to the Lender warrants to purchase the Company's common stock, par value .001 per share ("Common Stock"). Such warrants shall be in the form attached as Exhibit B (the "Warrants"), and shall be issued to the Lender no later than 10 Trading Days following the determination of the Exercise Price. Each Lender shall receive the number of Warrants as follows:

(a) upon execution and delivery of this Agreement, a number of warrants equal to the that portion of the Committed Funds to be loaned by each such Lender to the Company multiplied by 0.10, divided by the Exercise Price;

(b) upon advance, if any, by each such Lender under Section 1.3, a number of additional warrants equal to the portion of the Committed Funds so advanced multiplied by 0.10, divided by the Exercise Price; and

(c) upon the first to occur of any extension of either (1) the Commitment Period under Section 1.2 or (2) the Maturity Date under Section 1.4, a number of additional warrants equal to that portion of the Committed Funds to be loaned by each such Lender multiplied by 0.10, divided by the Exercise Price, *provided that* only one adjustment shall be made pursuant to this Section 2.1(c).

In no event shall the number of shares issuable upon exercise of such Warrants exceed 19.9% of the outstanding Common Stock of the Company.

2.2 Registration Rights.

(a) Promptly following the execution and delivery of this Agreement, the Company shall use its reasonable best efforts to obtain an amendment, waiver or other similar document, from the Holders of Registrable Securities under that certain that certain Fourth Amended and Restated Investor Rights Agreement dated as of December 17, 2002, as amended, including without limitation a waiver of any incidental or piggyback registration rights thereunder, to permit the registration of the shares of Common Stock isssuable upon exercise of the Warrants ("Warrant Shares"). Within sixty (60) days after the date hereof (or immediately following receipt of such waiver or amendment, if later), the Company shall file with the SEC a registration statement with respect to the maximum number of Warrant Shares isssuable upon exercise of the Warrants (assuming all Warrants are issued pursuant to Section 2.1 above) and use its diligent best efforts to cause such registration statement to become effective, and to keep such registration statement effective for up to ninety (90) days or until the Lenders have completed the distribution relating thereto (or in the alternative at the Company's election cause such Warrant Shares to be included on an amendment to a shelf registration statement previously filed by the Company). The Company shall not have any obligation to sell such shares in an underwritten offering.

(b) In connection therewith, the Company shall:

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

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

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

iv. Notify each Lender of Warrant Shares covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the

Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

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

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

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

2.4 The Warrants shall provide that if the per share Closing Price of the Common Stock shall exceed an amount that is three (3) times the Exercise Price for 20 consecutive Trading Days ending no later than March 31, 2006, the Company may require that the Lender exercise such Warrants, provided that such notice may be given no later than 5:00 p.m. St. Louis time on April 10, 2006. The Warrants shall be exercised on such date specified in the notice, but no fewer than three and no more than 10 Trading Days following the date of such Notice.

2.5 Certain Definitions.

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

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

"Exercise Price" shall mean the average of the daily Closing Prices of a share of the Common Stock for 10 consecutive Trading Days commencing on and including November 4, 2005 and ending on and including November 17, 2005.

3. Representations and Warranties of the Company.

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

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

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

4. Representations and Warranties of the Lenders.

4.1 Representations and Warranties of the Lenders. Each Lender severably represents and warrants to the Company as of the Closing Date as follows:

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

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

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

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

(e) The Lender understands that no public market now exists for any of the Securities issued by the Company and there can be no assurance that a public market will ever exist for the Securities.

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

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

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

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

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

4.3 Each Lender agrees that in no event will it make a transfer or disposition of any of the Notes or Warrants (other than pursuant to an effective registration statement under the 1933 Act), unless and until (i) it shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the disposition and assurance that the proposed disposition is in compliance with all applicable laws, and (ii) if reasonably requested by the Company, at the expense of such Lender or its transferee, it shall have furnished to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that such transfer may be made without registration under the 1933 Act. Notwithstanding the foregoing, no formal notice or opinion of counsel shall be required for the transfer by an Lender to: (x) any partner of a Lender or to a retired partner of a Lender, who retires after the date of this Agreement, (y) the estate of any such partner or a retired partner or for the transfer by gift, will or intestate succession of any partner to his spouse or lineal descendants or ancestors or (z) any entity which is a wholly-owned subsidiary of the Lender or which is under common control with the Lender; provided, however, in all cases where no legal opinion is required that the transferee shall agree in writing to be subject to the terms of this Agreement to the same extent as if it were the original Lender hereunder.

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

6. Miscellaneous.

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

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

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

6.4 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

6.5 Entire Agreement; Conflict. This Agreement and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof. Except as expressly provided herein, in the event of any conflict between the terms of this Agreement and the other documents as attached hereto, this Agreement shall control.

6.6 Severability of this Agreement. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

6.7 Titles and Subtitles; Construction. The titles of the Sections and Subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require.

6.8 Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon receipt, when delivered personally or by courier, overnight delivery service or confirmed facsimile, or forty-eight (48) hours after being deposited in the U.S. mail as certified or registered mail with postage prepaid, if such notice is addressed to the party to be notified at such party's address or facsimile number as set forth below or as subsequently modified by written notice.

To the Company:

Stereotaxis, Inc.
4041 Forest Park Avenue
St. Louis, Missouri 63108
Fax: (314) 615-6922
Attention: Chief Executive Officer
Chief Financial Officer

Copy to:

Bryan Cave LLP
One Metropolitan Square
Suite 3600
St. Louis, MO 63102
Fax: (314) 259-2020
Attn: James L. Nouss, Jr., Esq.
Robert J. Endicott, Esq.

To the Lenders:

[To the addresses specified on Schedule 1.1 hereto]

6.9 Counterparts. This Agreement may be executed by facsimile and in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one instrument.

[THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered as of the day and year first written above.

THE COMPANY:

STEREOTAXIS, INC.

a Delaware corporation

By: /s/ Bevil J. Hogg

Name: Bevil J. Hogg
Title: President and Chief Executive Officer

THE LENDERS:

SANDERLING VENTURE PARTNERS VI CO-INVESTMENT FUND, L.P.

By: Middleton, McNeil, Mills & Associates, VI, LLC

By: /s/ Fred A. Middleton

Fred A. Middleton
Managing Director

ALAFI CAPITAL COMPANY LLC

By: /s/ Christopher Alafi

Name: Christopher Alafi
Title: Manager

Schedule A

Lender Name and Address	Committed Funds
Sanderling Venture Partners VI CO-investment fund, L.P. [Separately on file with the Company]	$ 10,000,000
Alafi Capital Company [Separately on file with the Company]	$ 10,000,000
Total	$ 20,000,000

Schedule 2.2

Indemnification

(a) The Company will, and does hereby undertake to, indemnify and hold harmless each Lender of Warrant Shares, each of such Lender's officers, directors, partners and agents, and each person controlling such Lender, with respect to any registration, qualification, or compliance of the Warrant Shares held by or issuable to such Lender effected pursuant to this Section 1, and each underwriter of such registration, if any, and each person who controls any underwriter, against all claims, losses, damages, and liabilities (or actions in respect thereto) to which they may become subject under the Securities Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or other federal or state law arising out of or based on (i) any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular, or other similar document (including any related registration statement, notification, or the like) incident to any such registration, qualification, or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any violation or alleged violation by the Company of any federal, state or common law rule or regulation applicable to the Company in connection with any such registration, qualification, or compliance, and will reimburse, as incurred, each such Lender, each such underwriter, and each such director, officer, partner, agent and controlling person, for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability, or action; provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense, arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by an instrument duly executed by such Lender or underwriter and stated to be specifically for use therein.

(b) Each Lender will, if Warrant Shares held by or issuable to such Lender are included in such registration, qualification, or compliance of the Company's securities, severally and not jointly, indemnify the Company, each of its directors, and each officer who signs a registration statement in connection therewith, and each person controlling the Company, each underwriter of such registration, if any, and each person who controls any such underwriter, and each other Lender, each of such other Lender's officers, partners, directors and agents and each person controlling such other Lender, against all claims, losses, damages, and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular, or other similar document (including any related registration statement, notification, or the like) incident to any such registration, qualification, or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse, as incurred, the Company, each such underwriter, each such other Lender, and each such director, officer, partner, and controlling person, for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability, or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) was made in such registration statement, prospectus, offering circular, or other document, in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Lender and stated to be specifically for use therein. In no event will any Lender be required to enter into any agreement or undertaking in connection with any registration under this Section 1 providing for any indemnification or contribution obligations on the part of such Lender greater than such Lender's obligations under

this Schedule 2.2. The liability of each Lender hereunder shall be limited to the proportion of any such loss, claim, damage, liability or expense which is equal to the proportion that the public offering price of the shares sold by such Lender under such registration statement bears to the total public offering price of all securities sold thereunder, but not in any event to exceed the net proceeds received by such Lender from the sale of Warrant Shares covered by such registration statement.

(c) Each party entitled to indemnification under this Schedule 2.2 (the "Indemnified Party") shall give notice to the party required to provide such indemnification (the "Indemnifying Party") of any claim as to which indemnification may be sought promptly after such Indemnified Party has actual knowledge thereof, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom; provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be subject to approval by the Indemnified Party (whose approval shall not be unreasonably withheld) and the Indemnified Party may participate in such defense at the Indemnifying Party's expense if representation of such Indemnified Party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding; and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 1, except to the extent that such failure to give notice shall materially adversely affect the Indemnifying Party in the defense of any such claim or any such litigation. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff therein, to such Indemnified Party, of a release from all liability in respect to such claim or litigation.

Exhibit A

Form of Note

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

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

STEREOTAXIS, INC.
TERM NOTE

$_____ _____, 200__
St. Louis, Missouri

1. General. Stereotaxis, Inc., a Delaware corporation (the "Company"), for value received, hereby promises to pay to the order of _____ (the "Holder") the principal sum of _____ Dollars ($_____), on the date (the "Maturity Date") which is the earlier of (i) May 10, 2006, or (ii) the date upon which the Company obtains up to Thirty Million Dollars ($30,000,000) of Strategic Financing (as such term is defined in the Purchase Agreement referred to below), in such coin or currency of the United States of America as at the time of payment shall be legal tender therein for the payment of public and private debts, and to pay interest on the unpaid balance of the principal hereof from the date hereof, at the times and in the amounts as provided in that certain Note and Warrant Purchase Agreement between the Company and the Holder and certain other lenders set forth therein, dated November 10, 2005, as the same may from time to time be amended, modified or supplemented (the "Purchase Agreement"); provided that the Company shall have the option, pursuant to the terms of the Purchase Agreement, to extend the Maturity Date to November 10, 2006. Notice of extension of the Maturity Date shall be given by the Company by mail and shall be mailed to the Holder not less than 30 days prior to the date fixed for such Maturity Date extension. All payments of principal and interest on this Note shall be made at the offices of the Company. In the event that the principal amount of this Note is not paid in full when such amount becomes due and payable, interest at the rate of **[_____]** percent (**[__]**%) (the "Default Rate") shall continue to accrue on the balance of any unpaid principal until such balance is paid.

This Note is issued in connection with the Purchase Agreement and the Holder is subject to certain restrictions set forth in this Note and the Purchase Agreement and shall be entitled to certain rights and privileges set forth in the same.

2. Optional Prepayment. The Company may at any time, prepay the unpaid principal amount of this Note, or any part thereof, without penalty or premium, but with interest accrued to the date fixed for prepayment. Notice of prepayment shall be given by the Company by mail and shall be mailed to the Holder not less than 15 days prior to the date fixed for prepayment. Upon giving of notice of prepayment as aforesaid, this Note (or the portion thereof to be prepaid, as the case may be) shall on the prepayment date specified in such notice become due and payable; and from and after the prepayment date so specified (unless the Company shall default in making such prepayment) interest on this Note (or the portion thereof to be prepaid, as the case may be) shall cease to accrue and, on presentation and surrender hereof to the Company for cancellation, this Note (or the portion thereof to be prepaid as the case may be) shall be paid by the Company at the prepayment price aforesaid.

3. Events of Default. If any of the events specified in this Section 3 shall occur (herein individually referred to as an "Event of Default"), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Default in the payment of the principal and unpaid accrued interest of this Note when due and payable if such default is not cured by the Company within ten (10) days after the Holder has given the Company written notice of such default; or

(ii) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Code, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action; or

(iii) If, within sixty (60) days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company stayed, or if the stay of any such order or proceeding shall thereafter be set aside, or if, within sixty (60) days after the appointment without the consent or acquiescence of the Company of any trustee, receiver or liquidator of the Company or of all or any substantial part of the properties of the Company, such appointment shall not have been vacated.

At any time that the unpaid principal balance of this Note, together with all accrued and unpaid interest owing thereon, shall have become due and payable in full pursuant to this Section 3, the aggregate of all such sums shall thereafter bear interest, both before and after judgment, at the Default Rate until such sums have been paid. In such event, all payments made thereafter shall be applied first to unpaid interest hereon, then to the principal of this Note.

4. Subordination. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as hereinafter defined.

4.1. Senior Indebtedness. As used in this Note, the term "Senior Indebtedness" shall mean the principal of and unpaid accrued interest on: (i) all indebtedness of the Company to Silicon Valley Bank or its affiliates or any other banks, commercial finance lenders or similar financial institutions, which is for money borrowed by the Company (whether or not secured) ("Financial Institution Debt"), and (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Financial Institution Debt, or any indebtedness arising from the satisfaction of such Financial Institution Debt by a guarantor.

4.2. Default on Senior Indebtedness. If there should occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation or any other marshalling of the assets and liabilities of the Company, then (i) no amount shall be paid by the Company in respect of the principal of or interest on this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the Holder of this Note that shall assert any right to receive any payments in respect of the principal of and interest on this Note, except subject to the payment in full of the principal of and interest on all of the Senior Indebtedness then outstanding. If there occurs an event of default that has been declared in writing with respect to any Senior Indebtedness, or in the instrument under which any Senior Indebtedness is outstanding, permitting the holder of such Senior Indebtedness to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note.

4.3. Effect of Subordination. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 4 to receive cash, securities or other properties otherwise payable or deliverable to the Holder of this Note, nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

4.4. Subrogation. Subject to the payment in full of all Senior Indebtedness and until this Note shall be paid in full, the Holder shall be subrogated to the rights of the holders of Senior Indebtedness (to the extent of payments or distributions previously made to such holders of Senior Indebtedness pursuant to the provisions of Section 4.2 above) to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for the purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness.

4.5. Undertaking. By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the lender of any Senior Indebtedness in order to implement the foregoing provisions of this Section 4.

4.6. Subordination of Junior Indebtedness. In connection with the Company's incurrence of any future convertible indebtedness or other indebtedness of the Company in respect of borrowed money evidenced by bonds, notes, debentures or similar instruments or letters of credit that is other than Financial Institution Debt ("Junior Indebtedness"), the Company agrees that any such Junior Indebtedness shall be subordinate to this Note on substantially the same terms as are provided under this Article 4.

5. Warrant Agreement. Warrants shall be issued by the Company pursuant to the Purchase Agreement, which together with the Form of Warrant to be issued thereunder shall govern all aspects of the Warrants, including without limitation the term, exercise price and all adjustments to the number of shares of common stock issuable upon exercise thereof.

6. Assignment. Subject to the restrictions on transfer described in Section 12 below, the rights and obligations of the Company and the Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

7. Waiver and Amendment. Any provision of this Note may be amended, waived or modified pursuant to the terms of the Purchase Agreement.

8. Heading; References. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

9. Notices. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or if faxed or mailed by registered or certified mail, postage prepaid, at the respective addresses of the parties as set forth herein. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally delivered or when deposited in the mail or faxed in the manner set forth above and shall be deemed to have been received when delivered.

10. No Stockholder Rights. Nothing contained in this Note shall be construed as conferring upon the Holder or any other person the right to vote or to consent or to receive notice as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, excluding that body of law relating to conflict of laws.

12. Transfer Restrictions. The Holder agrees that in no event will it make a transfer or disposition of any of this Note (other than pursuant to an effective registration statement under the 1933 Act), unless and until (i) it shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the disposition and assurance that the proposed disposition is in compliance with all applicable laws, and (ii) if reasonably requested by the Company, at the expense of such Holder or its transferee, it shall have furnished to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that such transfer may be made without registration under the 1933 Act. Notwithstanding the foregoing, no formal notice or opinion of counsel shall be required for the transfer by an Holder to: (x) any partner of a Holder or to a retired partner of a Holder, who retires after the date of this Agreement, (y) the estate of any such partner or a retired partner or for the transfer by gift, will or intestate succession of any partner to his spouse or lineal descendants or ancestors or (z) any entity which is a wholly-owned subsidiary of the Holder or which is under common control with the Holder; provided, however, in all cases where no legal opinion is required that the transferee shall agree in writing to be subject to the terms of this Agreement to the same extent as if it were the original Holder hereunder.

[THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the Company has caused this Note to be issued this __ day of November, 2005.

STEREOTAXIS, INC.

By: _____

Name:
Title:

Name of Holder:

Address: _____

_____

_____

Exhibit B

Form of Warrant

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER ANY STATE SECURITIES LAWS, IN RELIANCE UPON EXEMPTIONS FROM REGISTRATION FOR NON-PUBLIC OFFERINGS. THIS SECURITY MAY NOT BE SOLD OR TRANSFERRED UNLESS IT IS REGISTERED UNDER THE ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR UNLESS THE ISSUER RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

Issuance Date: _____, 2005 Warrant No.: _____

STEREOTAXIS, INC.

COMMON STOCK PURCHASE WARRANT

TO PURCHASE SHARES OF
COMMON STOCK, $0.001 PAR VALUE PER SHARE

This is to certify that, FOR VALUE RECEIVED, _____ ("Warrantholder"), is entitled to purchase, subject to the provisions of this Common Stock Purchase Warrant ("Warrant"), from Stereotaxis, Inc., a corporation organized under the laws of Delaware ("Company"), at any time and from time to time after the issuance date hereof ("Exercise Date") but not later than 5:00 P.M., Eastern time, on the fifth (5th) anniversary of such issuance date ("Expiration Date"), _____ shares ("Warrant Shares") of Common Stock, $0.001 par value ("Common Stock"), of the Company, at an exercise price per share equal to $ _____ (the exercise price in effect from time to time hereafter being herein called the "Warrant Price").1 The number of Warrant Shares purchasable upon exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time as described herein.

This Warrant has been issued pursuant to the terms of the Note and Warrant Purchase Agreement ("Purchase Agreement") dated November 10, 2005 between the Company and the Warrantholder. Capitalized terms used herein and not defined shall have the meaning specified in the Purchase Agreement.

1. Registration. The Company shall maintain books for the transfer and registration of the Warrant. Upon the initial issuance of the Warrant, the Company shall issue and register the Warrant in the name of the Warrantholder.

2. Transfers. As provided herein, this Warrant may be transferred only pursuant to a registration statement filed under the Securities Act of 1933, as amended ("Securities Act"), or an exemption from registration thereunder. Subject to such restrictions, the Company shall transfer this Warrant from time to time, upon the books to be maintained by the Company for that purpose, upon surrender hereof for transfer properly endorsed or accompanied by appropriate instructions for transfer upon any such transfer, and a new Warrant shall be issued to the transferee and the surrendered Warrant shall be canceled by the Company. References to Warrantholder or holder shall include any such transferee.

1. To be determined in accordance with the Purchase Agreement.

3. Exercise of Warrant.

(a) Subject to the provisions hereof, the Warrantholder may exercise this Warrant to purchase the Warrant Shares, in whole or in part, at any time and from time to time on and after the Exercise Date and before the Expiration Date upon surrender of the Warrant, together with delivery of the duly executed Warrant exercise form attached hereto (the "Exercise Agreement") (which may be by fax), to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), and upon payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company of the Warrant Price for the Warrant Shares specified in the Exercise Agreement. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or such holder's designee, as the record owner of such shares, as of the close of business on the date on which the completed Exercise Agreement shall have been delivered to the Company (or such later date as may be specified in the Exercise Agreement). Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding five (5) business days, after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be requested by the holder hereof and shall be registered in the name of such holder or such other name as shall be designated by such holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of such certificates, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

(b) If the per share Closing Price of the Common Stock shall exceed an amount that is three (3) times the Warrant Price for 20 consecutive Trading Days ending no later than March 31, 2006, the Company may require that the Warrantholder exercise this Warrant, provided that such notice may be given no later than 5:00 p.m. St. Louis time April 10, 2006. Such exercise shall be treated as if a voluntary exercise had been effected pursuant to Section 3 above. The Warrants shall be exercised on such date specified in the notice, but no fewer than three and no more than 10 Trading Days following the date of such Notice.

(c) Certain Definitions.

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

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

4. Cashless Exercise. The Warrantholder may, at its election exercised in its sole discretion, exercise this Warrant and, in lieu of making the cash payment otherwise

contemplated to be made to the Company upon such exercise in payment of the Warrant Price for the Warrant Shares specified in the Exercise Agreement, elect instead to receive upon such exercise the "Net Number" of shares of Common Stock determined according to the following formula (a "Cashless Exercise"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A= the total number of shares with respect to which this Warrant is then being exercised.

B= the closing sale price of the Common Stock on the Nasdaq National Market on the trading day immediately preceding the date of the Exercise Notice.

C= the Warrant Price then in effect for the applicable Warrant Shares at the time of such exercise.

5. Compliance with the Securities Act of 1933. Neither this Warrant nor the Common Stock issued upon exercise hereof nor any other security issued or issuable upon exercise of this Warrant may be offered or sold except as provided in this Warrant and in conformity with the Securities Act of 1933, as amended, and then only against receipt of an agreement of such person to whom such offer of sale is made to comply with the provisions of this Section 5 with respect to any resale or other disposition of such security. The Company may cause the legend set forth on the first page of this Warrant to be set forth on each Warrant or similar legend on the Warrant Shares or any other security issued or issuable upon exercise of this Warrant until the Warrant Shares have been registered for resale under the Investor Rights Agreement, unless counsel for the Company is of the opinion as to any such security that such legend is unnecessary.

6. Payment of Taxes. The Company will pay any documentary stamp taxes attributable to the initial issuance of Warrant Shares issuable upon the exercise of the Warrant; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificates for Warrant Shares in a name other than that of the registered holder of this Warrant in respect of which such shares are issued. The holder shall be responsible for income taxes due under federal or state law, if any such tax is due.

7. Mutilated or Missing Warrants. In case this Warrant shall be mutilated, lost, stolen, or destroyed, the Company shall issue in exchange and substitution of and upon cancellation of the mutilated Warrant, or in lieu of and substitution for the Warrant lost, stolen or destroyed, a new Warrant of like tenor and for the purchase of a like number of Warrant Shares, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction of the Warrant, and with respect to a lost, stolen or destroyed Warrant, reasonable indemnity or bond with respect thereto, if reasonably requested by the Company.

8. Reservation of Common Stock. The Company hereby represents and warrants that there have been reserved, and the Company shall at all applicable times keep

reserved, out of the authorized and unissued Common Stock, a number of shares sufficient to provide for the exercise of the rights of purchase represented by the Warrant in full (without regard to any restrictions on beneficial ownership contained herein), and the transfer agent for the Common Stock, including every subsequent transfer agent for the Common Stock or other shares of the Company's capital stock issuable upon the exercise of any of the right of purchase aforesaid ("Transfer Agent"), shall be irrevocably authorized and directed at all times to reserve such number of authorized and unissued shares of Common Stock as shall be requisite for such purpose. The Company agrees that all Warrant Shares issued upon exercise of the Warrant in accordance with its terms shall be, at the time of delivery of the certificates for such Warrant Shares, duly authorized, validly issued, fully paid and non-assessable shares of Common Stock of the Company.

9. Warrant Price. The Warrant Price, subject to adjustment as provided in Section 10 hereof, shall, if payment is made in cash or by certified check, be payable in lawful money of the United States of America.

10. Adjustment of Warrant Exercise Price and Number of Shares. If the Company at any time after the date of issuance of this Warrant subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Warrant Price in effect immediately prior to such subdivision will be proportionately reduced and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately increased. If the Company at any time after the date of issuance of this Warrant combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Warrant Price in effect immediately prior to such combination will be proportionately increased and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately decreased. Any adjustment under this Section 10 shall become effective at the close of business on the date the subdivision or combination becomes effective.

11. Replacement Warrants. The Company agrees that within ten (10) business days after any request from time to time of the Warrantholder, it shall deliver to such holder a new Warrant in substitution of this Warrant which is identical in all respects except that the then Warrant Price shall be appropriately specified in the Warrant, and the Warrant shall specify the fixed number of Warrant Shares into which this Warrant is then exercisable. Such changes are intended not as amendments to the Warrant but only as clarification of the adjustment in the preceding Section for convenience purposes, and such adjustments shall not affect any provisions concerning adjustments to the Warrant Price or number of Warrant Shares contained herein.

12. Fractional Interest. The Company shall not be required to issue fractions of Warrant Shares upon the exercise of the Warrant. If any fraction of a Warrant Share would, except for the provisions of this Section, be issuable upon the exercise of the Warrant (or specified portions thereof), the Company shall round such calculation to the nearest whole number and disregard the fraction.

13. Benefits. Nothing in this Warrant shall be construed to give any person, firm or corporation (other than the Company and the Warrantholder) any legal or equitable right, remedy or claim, it being agreed that this Warrant shall be for the sole and exclusive benefit of the Company and the Warrantholder.

14. Notices to Warrantholder. Upon the happening of any event requiring an adjustment of the Warrant Price, the Company shall forthwith give written notice thereof to the Warrantholder at the address appearing in the records of the Company, stating the adjusted Warrant Price and the adjusted number of Warrant Shares resulting from such event and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. In the event of a dispute with respect to any such calculation, the certificate of the Company's independent certified public accountants shall be conclusive evidence of the correctness of any computation made, absent manifest error. Failure to give such notice to the Warrantholder or any defect therein shall not affect the legality or validity of the subject adjustment.

15. Identity of Transfer Agent. The Transfer Agent for the Common Stock is Bank of New York. Forthwith upon the appointment of any subsequent transfer agent for the Common Stock or other shares of the Company's capital stock issuable upon the exercise of the rights of purchase represented by the Warrant, the Company will fax to the Warrantholder a statement setting forth the name and address of such transfer agent.

16. Notices. Any notice pursuant hereto to be given or made by the Warrantholder to or on the Company shall be sufficiently given or made if delivered personally or by facsimile or if sent by an internationally recognized courier, addressed as follows:

Stereotaxis, Inc.
4041 Forest Park Avenue
St. Louis, Missouri 63108
(314) 615-6940
Fax: (314) 615-6922
Attention: Chief Financial Officer

or such other address as the Company may specify in writing by notice to the Warrantholder complying as to delivery with the terms of this Section 16.

Any notice pursuant hereto to be given or made by the Company to or on the Warrantholder shall be sufficiently given or made if personally delivered or if sent by an internationally recognized courier service by overnight or two-day service, to the address set forth on the books of the Company or, as to each of the Company and the Warrantholder, at such other address as shall be designated by such party by written notice to the other party complying as to delivery with the terms of this Section 16.

All such notices, requests, demands, directions and other communications shall, when sent by courier, be effective two (2) days after delivery to such courier as provided and addressed as aforesaid. All faxes shall be effective upon receipt.

17. Registration Rights. The holder of this Warrant is entitled to the benefit of certain registration rights in respect of the Warrant Shares as provided in the Purchase Agreement.

18. Successors. All the covenants and provisions hereof by or for the benefit of the Warrantholder shall bind and inure to the benefit of its respective successors and assigns hereunder.

19. Governing Law. This Warrant shall be deemed to be a contract made under the laws of the State of Delaware, without giving effect to its conflict of law principles, and for all purposes shall be construed in accordance with the laws of said State.

20. Absolute Obligation to Issue Warrant Shares. The Company's obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the holder hereof to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any person or entity or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the holder hereof or any other Person of any obligation to the Company or any violation or alleged violation of law by the holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the holder hereof in connection with the issuance of Warrant Shares. The Company will at no time close its shareholder books or records in any manner which interferes with the timely exercise of this Warrant.

21. Assignment, etc. The Warrantholder agrees that in no event will it make a transfer or disposition of any of this Warrant (other than pursuant to an effective registration statement under the 1933 Act), unless and until (i) it shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the disposition and assurance that the proposed disposition is in compliance with all applicable laws, and (ii) if reasonably requested by the Company, at the expense of such Warrantholder or its transferee, it shall have furnished to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that such transfer may be made without registration under the 1933 Act. Notwithstanding the foregoing, no formal notice or opinion of counsel shall be required for the transfer by an Warrantholder to: (x) any partner of a Warrantholder or to a retired partner of a Warrantholder, who retires after the date of this Agreement, (y) the estate of any such partner or a retired partner or for the transfer by gift, will or intestate succession of any partner to his spouse or lineal descendants or ancestors or (z) any entity which is a wholly-owned subsidiary of the Warrantholder or which is under common control with the Warrantholder; provided, however, in all cases where no legal opinion is required that the transferee shall agree in writing to be subject to the terms of this Agreement to the same extent as if it were the original Warrantholder hereunder.

IN WITNESS WHEREOF, the Company has caused this Common Stock Purchase Warrant to be duly executed as of the date first written above.

STEREOTAXIS, INC.

By: _____

Name:
Title:

Attest:

Sign: _____

Print Name:

STEREOTAXIS, INC.
WARRANT EXERCISE FORM

Stereotaxis, Inc.

4041 Forest Park Avenue

St. Louis, Missouri 63108

Fax: (314)0615-6922

Attention: Chief Financial Officer

This undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Common Stock Purchase Warrant ("Warrant") for, and to purchase thereunder _____ shares of Common Stock ("Warrant Shares") provided for therein, and requests that certificates for the Warrant Shares be issued as follows:

Name: _____

Address: _____

_____

_____

and, if the number of Warrant Shares shall not be all the Warrant Shares purchasable upon exercise of the Warrant, that a new Warrant for the balance of the Warrant Shares.

Dated: _____ Signature: _____

Print Name: _____

Address: _____

_____

_____

Exhibit 10.2

SECOND LOAN MODIFICATION AGREEMENT

This Second Loan Modification Agreement (this "Loan Modification Agreement") is entered into as of November 8, 2005, by and between **SILICON VALLEY BANK**, a California-chartered bank, with a loan production office located at 230 W. Monroe, Suite 720, Chicago, Illinois 60606 ("Bank") and **STEREOTAXIS, INC.**, a Delaware corporation with its chief executive office located at 4041 Forest Park Avenue, St. Louis, Missouri 63108 ("Borrower").

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

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

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

3. DESCRIPTION OF CHANGE IN TERMS.

A. Modifications to Loan Agreement.

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

"(c) Interest Rate. The principal amounts outstanding under the Revolving Line shall accrue interest at a floating per annum rate equal to the aggregate of the Prime Rate, and one and one-quarter of one percent (1.25%).

and inserting in lieu thereof the following:

"(c) Interest Rate. The principal amounts outstanding under the Revolving line shall accrue interest at a floating per annum rate equal to the aggregate of the Prime Rate, and three-quarters of one percent (.75%)."

2. The Loan Agreement shall be amended by inserting the following new provision entitled "2005 Equipment Advances" to appear as Section 2.1.6 thereof:

"2.1.6 2005 Equipment Advances.

(a) Availability. Subject to the terms and conditions of this Agreement, on November 8, 2005, Bank shall make an advance (the "2005 Equipment Advance") not exceeding the 2005 Equipment Line. The 2005 Equipment Advance may only be used to finance 2005 Eligible Equipment purchased after November 8, 2005 through November 8, 2006. No Equipment Advance may exceed 100% of the total invoice for the 2005 Eligible Equipment, excluding taxes, shipping, warranty charges, freight discounts and installation expenses relating to such 2005 Eligible Equipment. Borrower shall provide Bank with equipment invoices totaling the aggregate 2005 Equipment Advance made hereunder, on or before November 8, 2006. After repayment, the 2005 Equipment Advance may be not be reborrowed.

(b) Interest. The principal amount outstanding for the 2005 Equipment Advance shall accrue interest at the floating per annum rate equal to the aggregate of the Prime Rate and one and one-half of one percent (1.5%), which interest shall be payable monthly.

(c) Repayment. The 2005 Equipment Advance is payable in: (i) thirty-six (36) consecutive equal monthly installments of principal, calculated by the Bank, based upon (A) the amount of the 2005 Equipment Advance, and (B) an amortization schedule equal to thirty-six (36) months, plus (ii) interest on the outstanding principal amount of the 2005 Equipment Advance at the rate set forth in Section 2.1.6(b), beginning on the first calendar day of the month following the month in which the Funding Date occurs and continuing thereafter on the first calendar day of each successive calendar month. All unpaid principal and accrued interest is due and payable in full on the Maturity Date. Payment received after 12:00 noon Eastern time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment is due the next Business Day and additional fees or interest, as applicable, shall continue to accrue.

(d) Mandatory Prepayment Upon an Acceleration. If the 2005 Equipment Advance is accelerated following the occurrence of an Event of Default, Borrower shall immediately pay to Bank an amount equal to the sum of (i) all outstanding principal plus accrued and unpaid interest, (ii) the Prepayment Fee, and (iii) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

(e) Permitted Prepayment of Equipment Advances. So long as no Event of Default has occurred and is continuing, Borrower shall have the option to prepay all, but not less than all, of the 2005 Equipment Advance advanced by Bank under this Agreement, provided Borrower (i) delivers written notice to Bank of its election to prepay the 2005 Equipment Advance at least thirty (30) days prior to such prepayment, and (ii) pays, on the date of such prepayment (A) all outstanding principal plus accrued and unpaid interest, (B) the Prepayment Fee, and (C) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

(f) Borrowing Procedure. To obtain the 2005 Equipment Advance, Borrower must notify Bank (which notice shall be irrevocable) by facsimile no later than 3:00 p.m. Eastern time one (1) Business Day before the day on which the 2005 Equipment Advance is to be made. The Borrower shall include with such notice a Payment/Advance Form signed by a Responsible Officer or designee."

3. The Loan Agreement shall be amended such that the provision entitled "Undisbursed Credit Extensions" shall be renumbered to appear as Section 2.1.7.

4. The Loan Agreement shall be amended by deleting subsection (a) of Section 2.4 in its entirety, and inserting in lieu thereof the following:

"(a) Revolving Line Commitment Fee. (i) A fully earned, non-refundable commitment fee of Forty Thousand Dollars ($40,000.00) was paid to Bank by Borrower on April 30, 2004; (ii) a fully earned, non-refundable commitment fee of Twenty Thousand Dollars ($20,000.00) was paid to Bank by the Borrower on April 29, 2005; and (iii) a fully earned, non-refundable commitment fee of Twenty-Five Thousand Dollars ($25,000.00) due on November 8, 2005 and is payable on April 28, 2006."

5. The Loan Agreement shall be amended by inserting the following to appear as subsections (f), and (g), of Section 2.4 entitled "Fees":

"(f) Prepayment Fee. The Prepayment Fee, when due hereunder.

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

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

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

(a) **Adjusted Quick Ratio**. To be tested as of the last day of each month, beginning with the month ending November 30, 2005, Borrower shall maintain a ratio of Quick Assets to Current Liabilities minus Deferred Revenue of at least 1.25 to 1.0."

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

"6.9 Lockbox. Borrower shall direct each domestic Account Debtor (and each depository institution where proceeds of Accounts are on deposit) to remit payments with respect to the Accounts to a lockbox account established with Bank or to wire transfer payments to an account that Bank controls (collectively, the "Lockbox"). In addition, Borrower shall direct each foreign Account Debtor (and each third party institution responsible for the collection of such proceeds of Accounts) to wire transfer payments (net of customary current operating expenses for such foreign operations) to a Lock Box."

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

""**Borrowing Base**" is (i) eighty percent (80.0%) of Eligible Accounts plus (ii) the lesser of forty percent (40.0%) of the value of Borrower's Eligible Inventory (valued at the lower of cost or wholesale fair market value) or Four Million Five Hundred Thousand Dollars ($4,500,000.00) as determined by Bank from Borrower's most recent Borrowing Base Certificate; provided, however, that Bank may lower the percentage of the Borrowing Base after performing an audit of Borrower's Collateral."

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

""**Funding Date**" is any date on which an Equipment Advance is made to or on account of Borrower."

""**Obligations**" are debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later under this Agreement, the First Equipment Loan Agreement, and

the Second Equipment Loan Agreement, including letters of credit, cash management services, and foreign exchange contracts, if any, and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank."

""**Other Equipment**" is leasehold improvements, intangible property such as computer software and software licenses, and soft costs approved by the Bank, including sales tax, freight and installation expenses. Unless otherwise agreed to by Bank, not more than thirty (30.0%) of the proceeds of the Equipment Line shall be used to finance Other Equipment"

""**Prepayment Fee**" shall be an amount equal to :

(A) for a prepayment made between the Closing Date and April 29, 2005, two percent (2.0%) of the principal amount repaid; or

(B) for a prepayment made at any time after April 29, 2005 and prior to the scheduled payments of principal and interest hereunder, one percent (1.0%) of the principal amount repaid."

""**Revolving Line**" is an Advance or Advances of up to Eight Million Dollars ($8,000,000.00)."

""**Revolving Maturity Date**" is April 29, 2006."

and inserting in lieu thereof the following:

""**Borrowing Base**" is (i) eighty percent (80.0%) of Eligible Accounts plus (ii) eighty percent (80.0%) of Unbilled Eligible Accounts up to a maximum of One Million Dollars ($1,000,000.00), plus (iii) the lesser of forty percent (40.0%) of the value of Borrower's Eligible Inventory (valued at the lower of cost or wholesale fair market value) or Four Million Five Hundred Thousand Dollars ($4,500,000.00) as determined by Bank from Borrower's most recent Borrowing Base Certificate; provided, however, that Bank may lower the percentage of the Borrowing Base after performing an audit of Borrower's Collateral."

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

""**Funding Date**" is any date on which an Equipment Advance or the 2005 Equipment Advance is made to or on account of Borrower."

""**Obligations**" are liabilities, obligations, covenants, agreements, debts, principal, interest, Prepayment Fee, Bank Expenses and other amounts Borrower owes Bank now or later under this Agreement, the First Equipment Loan Agreement, and the Second Equipment Loan Agreement, including letters of credit, cash management services, and foreign exchange contracts, if any, and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank."

""**Other Equipment**" is leasehold improvements, intangible property such as computer software and software licenses, and soft costs approved by the Bank, including sales tax, freight and installation expenses. Unless otherwise agreed to by Bank, not more than (i) thirty percent (30.0%) of the proceeds of the Equipment Line shall be used to finance Other Equipment, and (ii) thirty-five percent (35.0%) of the proceeds of the 2005 Equipment Line shall be used to finance Other Equipment."

““**Prepayment Fee**” shall be an amount equal to :

(A) In connection with the Equipment Line:

(i) for a prepayment made between the Closing Date and April 29, 2005, two percent (2.0%) of the principal amount repaid; or

(ii) for a prepayment made at any time after April 29, 2005 and prior to the scheduled payments of principal and interest hereunder, one percent (1.0%) of the principal amount repaid.

(B) In connection with the 2005 Equipment Line:

(i) for a prepayment made at any time prior to the Maturity Date, Ten Thousand Dollars ($10,000.00).”

““**Revolving Line**” is an Advance or Advances of up to Ten Million Dollars ($10,000,000.00).”

““**Revolving Maturity Date**” is April 28, 2007.”

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

““**2005 Eligible Equipment**” is (a) general purpose computer equipment, office equipment, test and laboratory equipment, furnishings, subject to the limitations set forth herein and (b) Other Equipment that complies with all of Borrower’s representations and warranties to Bank and which is acceptable to Bank in all respects.”

““**2005 Equipment Advance**” is defined in Section 2.1.6(a).”

““**2005 Equipment Line**” is a 2005 Equipment Advance in an amount not to exceed One Million Dollars ($1,000,000.00).”

““**Maturity Date**” is November 8, 2008 or if earlier, the date of the prepayment or the date of acceleration of the 2005 Equipment Advance by Bank following an Event of Default.”

““**Unbilled Eligible Accounts**” are Accounts that would be Eligible Accounts but for the fact that they have not been billed, which are earned revenues that result from (i) the satisfaction of the revenue recognition criteria under GAAP, which are invoiced the following month or (ii) final payments (10%) that are contractually invoiced 30-days after installation, all as reasonably determined by Borrower and approved by Bank.”

““**Unused Revolving Line Facility Fee**” is defined in Section 2.4(g).”

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

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

4. FEES. Borrower shall pay to Bank a 2005 Equipment Line Commitment Fee equal to Ten Thousand Dollars ($10,000.00), which fee shall be due on the date hereof and shall be deemed fully earned as of the date hereof. The Borrower shall also reimburse Bank for all legal fees and expenses incurred in connection with this amendment to the Existing Loan Documents.

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

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

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

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

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

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

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

[The remainder of this page is intentionally left blank]

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

BORROWER:	**BANK:**
STEREOTAXIS, INC.	**SILICON VALLEY BANK**
By: /s/ James M. Stolze	By: /s/ John Kinzer
Name: James M. Stolze	Name: John Kinzer
Title: Chief Financial Officer	Title: Relationship Manager

EXHIBIT A

BORROWING BASE CERTIFICATE

Borrower: Stereotaxis, Inc.
Lender: Silicon Valley Bank
Commitment Amount: $10,000,000.00

ACCOUNTS RECEIVABLE (excluding Unbilled Eligible Accounts as determined pursuant to the Loan Agreement)	
1. Accounts Receivable Book Value as of _____	$ _____
2. Additions (please explain on reverse)	$ _____
3. TOTAL ACCOUNTS RECEIVABLE	$ _____
ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)	
4. Amounts over 120 days due	$ _____
5. Balance of 50% over 120 day accounts	$ _____
6. Credit balances over 90 days	$ _____
7. Concentration Limits (in excess of $800,000.00 for individual account debtors)	$ _____
8. Foreign Accounts	$ _____
9. Governmental Accounts	$ _____
10. Contra Accounts	$ _____
11. Promotion or Demo Accounts	$ _____
12. Intercompany/Employee Accounts	$ _____
13. Other (please explain on reverse)	$ _____
14. TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS	$ _____
15. Eligible Accounts (#3 minus #14)	$ _____
16. LOAN VALUE OF ACCOUNTS (80% of #15)	$ _____
INVENTORY	
17. Inventory Value as of _____	$ _____
18. LOAN VALUE OF INVENTORY (lesser of 40% of #17 or $4,500,000.00)	$ _____
UNBILLED ELIGIBLE ACCOUNTS	
19. Unbilled Eligible Accounts	$ _____
20. LOAN VALUE OF UNBILLED ELIGIBLE ACCOUNTS (lesser of 80% of #19 or $1,000,000.00)	$ _____
BALANCES	
21. Maximum Loan Amount	$ _____
22. Total Funds Available (Lesser of #20 or (#16 plus #18 and #20)	$ _____
23. Present balance owing on Line of Credit	$ _____
24. Outstanding under Sublimits (L/C, FX Contract, Cash Mgt.)	$ _____
25. RESERVE POSITION (#21 minus #22 and #24)	$ _____

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

COMMENTS:

BANK USE ONLY

By: _____
Authorized Signer

Received by: _____
AUTHORIZED SIGNER

Date: _____

Verified: _____
AUTHORIZED SIGNER

Date: _____

Compliance Status: Yes No

EXHIBIT B

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
FROM: STEREOTAXIS, INC.

The undersigned authorized officer of Stereotaxis, Inc., ("Responsible Officer") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below and (ii) all representations and warranties in the Agreement are true and correct in all material respects on this date. Attached are the required documents supporting the certification. The Responsible Officer certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The Responsible Officer acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered.

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

Reporting Covenant	**Required**	**Complies**
Monthly financial statements with CC	Monthly within 30 days	Yes No
Annual (CPA Audited) with CC	FYE within 120 days	Yes No
Inventory Report	Monthly within 30 days	Yes No
BBC A/R Agings	Monthly within 30 days	Yes No
Audit	Annually	Yes No

Financial Covenant	**Required**	**Actual**	**Complies**
Maintain on a Monthly Basis:			
Minimum Adjusted Quick Ratio	1.25:1.0	____:1.0	Yes No

Comments Regarding Exceptions: See Attached

Sincerely,

_____

SIGNATURE

_____

TITLE

_____

DATE

BANK USE ONLY

Received by:

_____

AUTHORIZED SIGNER

Date: _____

Verified: _____

AUTHORIZED SIGNER

Date: _____

Compliance Status: Yes No

Exhibit 31.1

Certification of Principal Executive Officer

I, Bevil J. Hogg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stereotaxis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) Reserved – not effective

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2005

/s/ BEVIL J. HOGG

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

Exhibit 31.2

Certification of Principal Financial Officer

I, James M. Stolze, certify that:

1. I have reviewed this 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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) Reserved – not effective

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2005

/s/ JAMES M. STOLZE

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

Exhibit 32.1

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

In connection with the annual report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bevil J. Hogg, President and Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 14, 2005

/s/ BEVIL J. HOGG

Bevil J. Hogg
President and Chief Executive Officer
Stereotaxis, Inc.

A signed original of this written statement or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to Stereotaxis, Inc. and will be retained by Stereotaxis, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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

In connection with the annual report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. Stolze, Vice President and Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 14, 2005

/s/ JAMES M. STOLZE

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

A signed original of this written statement or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to Stereotaxis, Inc. and will be retained by Stereotaxis, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.