
**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 March 31, 2012.

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

For the transition period from _____ to _____.

Commission File Number: 000-50884

STEREOTAXIS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of
Incorporation)

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

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

63108
(Zip Code)

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

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

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

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

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

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

The number of outstanding shares of the registrant's common stock on April 30, 2012 was 56,382,486.

[Table of Contents](#)

STEREOTAXIS, INC.
INDEX TO FORM 10-Q

	<u>Page</u>
Part I Financial Information	
Item 1. Financial Statements (unaudited)	
Balance Sheets	3
Statements of Operations	4
Statements of Cash Flows	5
Notes to Financial Statements	6-15
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16-22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	24
Part II Other Information	
Item 1. Legal Proceedings	25
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3. Defaults upon Senior Securities	25
Item 4. [Reserved]	25
Item 5. Other Information	25
Item 6. Exhibits	25
Signatures	26
Exhibit Index	27

[Table of Contents](#)

ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.
BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,468,699	\$ 13,954,919
Accounts receivable, net of allowance of \$704,328 and 667,529 in 2012 and 2011, respectively	10,293,481	11,104,038
Current portion of long-term receivables	59,811	59,679
Inventories	7,214,994	6,036,051
Prepaid expenses and other current assets	3,416,740	3,081,484
Total current assets	31,453,725	34,236,171
Property and equipment, net	3,061,673	3,323,856
Intangible assets	2,204,195	2,279,153
Long-term receivables	31,118	51,892
Other assets	41,635	40,760
Total assets	\$ 36,792,346	\$ 39,931,832
Liabilities and stockholders' deficit		
Current liabilities:		
Current maturities of long-term debt	\$ 26,731,186	\$ 21,173,321
Accounts payable	6,003,094	5,610,181
Accrued liabilities	5,510,409	5,703,166
Deferred contract revenue	8,277,817	8,220,306
Warrants	313,485	125,415
Total current liabilities	46,835,991	40,832,389
Long-term debt, less current maturities	12,720,806	17,290,531
Long-term deferred contract revenue	602,520	634,713
Other liabilities	1,561	3,094
Stockholders' deficit:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized at 2012 and 2011; none outstanding at 2012 and 2011	—	—
Common stock, par value \$0.001; 100,000,000 shares authorized at 2012 and 2011; 56,372,466 and 55,431,573 issued at 2012 and 2011, respectively	56,372	55,432
Additional paid-in capital	358,001,453	356,729,118
Treasury stock, 40,151 shares at 2012 and 2011	(205,999)	(205,999)
Accumulated deficit	(381,220,358)	(375,407,446)
Total stockholders' deficit	(23,368,532)	(18,828,895)
Total liabilities and stockholders' deficit	\$ 36,792,346	\$ 39,931,832

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	<u>Three Months Ended March 31,</u>	
	<u>2012</u>	<u>2011</u>
Revenue:		
Systems	\$ 5,179,505	\$ 4,288,176
Disposables, service and accessories	7,103,723	5,936,528
Total revenue	12,283,228	10,224,704
Cost of revenue:		
Systems	2,342,410	2,184,478
Disposables, service and accessories	1,419,421	820,501
Total cost of revenue	3,761,831	3,004,979
Gross margin	8,521,397	7,219,725
Operating expenses:		
Research and development	2,825,207	3,394,259
Sales and marketing	5,998,739	8,338,336
General and administrative	3,872,873	4,250,269
Total operating expenses	12,696,819	15,982,864
Operating loss	(4,175,422)	(8,763,139)
Other income (expense)	(188,070)	20,346
Interest income	1,363	3,187
Interest expense	(1,450,783)	(810,327)
Net loss	<u>\$ (5,812,912)</u>	<u>\$ (9,549,933)</u>
Net loss per common share:		
Basic and diluted	<u>\$ (0.11)</u>	<u>\$ (0.17)</u>
Weighted average shares used in computing net loss per common share:		
Basic and diluted	<u>54,993,157</u>	<u>54,719,677</u>

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities		
Net loss	\$ (5,812,912)	\$ (9,549,933)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	344,455	358,584
Amortization	74,958	74,958
Amortization of warrants	511,079	328,327
Share-based compensation	937,323	818,361
Non-cash royalty (income), net	—	(796,995)
Warrant adjustment	188,070	(20,346)
Changes in operating assets and liabilities:		
Accounts receivable	810,557	698,903
Other receivables	20,642	(2,004)
Inventories	(1,178,943)	(600,862)
Prepaid expenses and other current assets	(551,281)	(160,780)
Other assets	(875)	(5,251)
Accounts payable	392,913	(1,431,086)
Accrued liabilities	20,829	692,615
Deferred revenue	25,318	(416,407)
Other liabilities	(1,533)	(2,770)
Net cash used in operating activities	(4,219,400)	(10,014,686)
Cash flows from investing activities		
Purchase of equipment	(82,272)	(332,957)
Net cash used in investing activities	(82,272)	(332,957)
Cash flows from financing activities		
Payments under term note	(1,000,000)	—
Proceeds from revolving line of credit	20,695,969	17,100,000
Payments of revolving line of credit	(18,334,786)	(11,000,000)
Payments of Cowen Debt	(586,629)	—
Payments under Biosense Debt	—	(697,470)
Proceeds from issuance of stock and warrants, net of issuance costs	40,898	91,213
Net cash provided by financing activities	815,452	5,493,743
Net decrease in cash and cash equivalents	(3,486,220)	(4,853,900)
Cash and cash equivalents at beginning of period	13,954,919	35,248,819
Cash and cash equivalents at end of period	<u>\$ 10,468,699</u>	<u>\$ 30,394,919</u>

See accompanying notes.

STEREOTAXIS, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Notes to Financial Statements

In this report, “Stereotaxis,” the “Company,” “Registrant,” “we,” “us,” and “our” refer to Stereotaxis, Inc. and its wholly-owned subsidiaries. *Niobe*[®], *Epoch*[™], *Odyssey*[™], and *Odyssey Cinema*[™] are trademarks of Stereotaxis, Inc.

1. Description of Business

Stereotaxis designs, manufactures and markets the *Epoch* Solution, which is an advanced remote robotic navigation system for use in a hospital’s interventional surgical suite, or “interventional lab”, that we believe revolutionizes the treatment of arrhythmias and coronary artery disease by enabling enhanced safety, efficiency and efficacy for catheter-based, or interventional, procedures. The *Epoch* Solution is comprised of the *Niobe* ES Robotic Magnetic Navigation System (“*Niobe* ES system”), *Odyssey* Information Management Solution (“*Odyssey* Solution”), and the *Vdrive* Robotic Navigation System.

The *Niobe* system is designed to enable physicians to complete more complex interventional procedures by providing image guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures and reduced x-ray exposure.

In addition to the *Niobe* system and its components, Stereotaxis also has developed the *Odyssey* Solution, which consolidates all lab information enabling doctors to focus on the patient for optimal procedure efficiency. The system also features a remote viewing and recording capability called *Odyssey Cinema*, which is an innovative solution delivering synchronized content for optimized workflow, advanced care and improved productivity. This tool includes an archiving capability that allows clinicians to store and replay entire procedures or segments of procedures. This information can be accessed from locations throughout the hospital local area network and over the global *Odyssey* Network providing physicians with a tool for clinical collaboration, remote consultation and training.

Our *Vdrive* Robotic Navigation System provides navigation and stability for diagnostic and therapeutic devices designed to improve interventional procedures. The *Vdrive* Robotic Navigation System complements the *Niobe* ES system control of therapeutic catheters for fully remote procedures and enables single-operator workflow and is sold as two options, the *Vdrive* System and the *Vdrive Duo* System. In addition to the *Vdrive* System and the *Vdrive Duo* System, we also manufacture and market various disposable components which can be manipulated by these systems.

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

The core components of Stereotaxis systems have received regulatory clearance in the U.S., Europe, Canada and elsewhere; the V-Loop[™] circular catheter manipulator is currently under regulatory review by the U.S. Food and Drug Administration.

Since our inception, we have generated significant losses. As of March 31, 2012, we had incurred cumulative net losses of approximately \$381 million. The Company expects such losses to continue through at least the year ended December 31, 2012. In May 2011, the Company introduced the *Niobe* ES, which is the latest generation of the *Niobe* Robotic Magnetic Navigation System and will replace the *Niobe* II system going forward. Due to the fact that the *Niobe* ES system and upgrades from *Niobe* II to *Niobe* ES systems were not available to customers until December 2011, the product change created a rapid shift away from sales of the current *Niobe* II system, resulting in lower System Revenue in 2011. As of March 31, 2012, the Company had performed 25 installations to upgrade *Niobe* II systems to *Niobe* ES systems and has received positive feedback from the physicians at these sites. During the quarter ended September 30, 2011, the Company implemented a detailed plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. By December 31, 2011, the Company completed the majority of the operating expense declines through headcount reductions and discretionary spending cuts and continues to implement processes and changes to further reduce operating expenses.

As a result of losses incurred, the cash balance at March 31, 2012 was \$10.5 million. During the quarter ended March 31, 2012 and subsequent to the balance sheet date, the Company amended agreements with its primary lender. See Note 9 for additional details. Subsequent to the balance sheet date, the Company entered into financing agreements to raise approximately \$18.5 million. See Note 14 for additional details.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements of Stereotaxis, Inc. have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, they include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Operating results for the three month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012 or for future operating periods.

These interim financial statements and the related notes should be read in conjunction with the annual financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission (SEC) on March 15, 2012.

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

Revenue and Costs of Revenue

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

Under our revenue recognition policy, a portion of revenue for the *Niobe*, *Odyssey Vision*, *Odyssey Cinema*, and *Vdrive* systems is recognized upon delivery, provided that title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. Revenue for *Niobe*, *Odyssey Vision Standard HD*, *Odyssey Vision Quad*, *Odyssey Enterprise Cinema*, and *Vdrive* systems is recognized upon delivery due to the fact that third parties became qualified to perform installations. Revenue is recognized for other types of *Odyssey* systems upon completion of installation, since there are no qualified third party installers. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since these arrangements do not include an installation element or right of return privileges. The Company does not recognize revenue in situations in which inventory remains at a Stereotaxis warehouse or in situations in which title and risk of loss have not transferred to the customer. However, the Company may deliver systems to a non-hospital site at the customer's request as outlined in the terms and conditions of the sales agreement, in which case the Company evaluates whether the substance of the transaction meets the delivery and performance requirements for revenue recognition under "bill and hold" guidance. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue.

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

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

Net Loss per Common Share

Basic and diluted net loss per common share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. The largest adjustment between the shares outstanding at March 31, 2012 and the weighted average shares used for calculating basic earnings per share for the quarter ended March 31, 2012 is the deduction of unvested restricted shares, which amounted to 1,235,363 at March 31, 2012.

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

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

As of March 31, 2012, the Company had 4,753,906 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$4.55 per share and 11,138,959 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$3.96 per share. The Company had a weighted average of 849,709 unearned restricted shares outstanding for the three months ended March 31, 2012.

Fair Value Measurements

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

The Company's financial assets consist of cash equivalents invested in money market funds in the amount of \$58,234 and \$55,629 at March 31, 2012 and December 31, 2011, respectively. These assets are classified as Level 1 as described above and total interest income recorded for these investments was insignificant during both the three months ended March 31, 2012 and the three months ended March 31, 2011. There were no transfers in or out of Level 1 during the three months ended March 31, 2012.

The Company's financial liabilities consist of warrants in the amount of \$313,485 at March 31, 2012. These liabilities are classified as Level 3 as described above and are measured using the Black-Scholes valuation model. The mark-to-market adjustment recorded in other income (expense) for these warrants was \$(188,070) during the three months ended March 31, 2012. There were no purchases, sales, issuances, transfers, or settlements of Level 3 financial instruments during the three months ended March 31, 2012. These warrants were transferred into Level 3 on January 1, 2009 based on the adoption of general accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity's own stock. See Note 11 for additional details.

Fair Value – Other Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for other financial instruments as of March 31, 2012 and December 31, 2011.

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

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

Share-Based Compensation

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

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

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

Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2011-11, “Disclosures about Offsetting Assets and Liabilities.” The Update enhances the disclosure of offsetting assets and liabilities by requiring companies to disclose both the gross and net information about instruments and transactions eligible for offset as well as those subject to an agreement similar to master netting arrangements. This guidance is effective for the Company’s interim and annual periods beginning January 1, 2013. The Company is currently evaluating the impact of adoption on the financial statements.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, “Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.” The Update amends the guidance on fair value measurements to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (“IFRS”). The Update does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. This guidance was effective during interim and annual periods beginning after December 15, 2011. The adoption of this ASU did not have a material effect on our financial position or results of operations.

In June 2011, the FASB issued new accounting guidance related to the presentation of comprehensive income that increases comparability between U.S. GAAP and IFRS. This guidance eliminates the current option to report other comprehensive income (OCI) and its components in the statement of changes in stockholders’ equity. This guidance was effective for the Company’s interim and annual periods beginning January 1, 2012. As the Company has no items of other comprehensive income, the Company is not required to report comprehensive income or other comprehensive income.

3. Inventory

Inventory consists of the following:

	<u>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Raw materials	\$3,448,935	\$2,264,603
Work in process	736,726	131,980
Finished goods	3,246,203	3,790,625
Reserve for obsolescence	(216,870)	(151,157)
Total inventory	<u>\$7,214,994</u>	<u>\$6,036,051</u>

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	<u>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Prepaid expenses	\$ 690,934	\$ 460,297
Deferred cost of revenue	440,875	289,312
Other assets	2,284,931	2,331,875
Total prepaid expenses and other current assets	<u>\$3,416,740</u>	<u>\$3,081,484</u>

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

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

5. Property and Equipment

Property and equipment consist of the following:

	<u>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Equipment	\$ 9,016,945	\$ 8,977,623
Equipment held for lease	547,416	547,416
Leasehold improvements	<u>2,473,880</u>	<u>2,473,880</u>
	12,038,241	11,998,919
Less: Accumulated depreciation	<u>(8,976,568)</u>	<u>(8,675,063)</u>
Net property and equipment	<u>\$ 3,061,673</u>	<u>\$ 3,323,856</u>

6. Intangible Assets

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

As of March 31, 2012, the Company had total intangible assets, including those described above, of \$3.7 million. Accumulated amortization at March 31, 2012 was \$1.5 million.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	<u>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Accrued salaries, bonus and benefits	\$3,069,403	\$3,229,382
Accrued research and development	19,683	27,044
Accrued legal and other professional fees	104,200	25,000
Other	<u>2,317,123</u>	<u>2,421,740</u>
Total accrued liabilities	<u>\$5,510,409</u>	<u>\$5,703,166</u>

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

8. Deferred Revenue

Deferred revenue consists of the following:

	March 31, 2012	December 31, 2011
Product shipped, revenue deferred	\$2,241,141	\$2,001,160
Customer deposits	532,700	1,156,900
Deferred service and license fees	6,106,496	5,696,959
	8,880,337	8,855,019
Less: Long-term deferred revenue	(602,520)	(634,713)
Total current deferred revenue	<u>\$8,277,817</u>	<u>\$8,220,306</u>

9. Long-Term Debt and Credit Facilities

Debt outstanding consists of the following:

	March 31, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Revolving credit agreement, due April 2012	\$ 17,650,980	\$ 17,682,204	\$ 15,290,510	\$ 15,371,063
Term note, due December 2013	7,000,000	7,000,000	8,000,000	8,000,000
Cowen debt	14,801,012	14,801,012	15,173,342	15,173,342
Total debt	39,451,992	39,483,216	38,463,852	38,544,405
Less current maturities	(26,731,186)	(26,762,410)	(21,173,321)	(21,253,874)
Total long term debt	<u>\$ 12,720,806</u>	<u>\$ 12,720,806</u>	<u>\$ 17,290,531</u>	<u>\$ 17,290,531</u>

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

Revolving line of credit

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

In December 2010, the Company amended its agreement with its primary lender to extend the maturity of the current working capital line of credit from March 31, 2011 to March 31, 2012, retaining the \$30 million total availability under the line per the 2009 amendment. The revised agreement retained the \$10 million sublimit for borrowings supported by guarantees from stockholders who are affiliates of two members of its board of directors ("Lenders") and considered to be related parties. Under the revised facility the Company is required to maintain a minimum "tangible net worth" and liquidity ratio as defined in the agreement. Interest on the facility accrued at the rate of prime plus 0.5% subject to a floor of 6% for the amount under guarantee and prime plus 1.75% subject to a floor of 7% for the remaining amounts.

In September 2011, the Company amended its agreement with its primary lender. Pursuant to the agreement, the lender waived the minimum tangible net worth financial covenant contained in the original amendment for the compliance period ended September 30, 2011. The Company was in compliance with the liquidity ratio covenant for this period. The amendment also reduced the availability amount of all credit extensions, other than the term loan, from \$30 million to \$20 million, and modified the interest rate applicable to the term loan from the lender's prime rate plus 3.5% to the lender's prime rate plus 5.5%.

On November 30, 2011, the Company entered into a Second Amended and Restated Loan and Security Agreement with its primary lender ("Amended Loan Agreement"). Under the Amended Loan Agreement, the Company agreed to revised tangible net worth and liquidity ratio covenants. Further, certain intellectual property assets of the Company were added to the collateral which secures repayment of the loan. Finally, the Amended Loan Agreement permits the Company to repay Cowen Healthcare Royalty Partners II, L.P. ("Cowen") under the Agreement with the royalties due to the Company under the Biosense Agreement (the "Biosense Agreement"), as described below.

On March 30, 2012, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from March 31, 2012 to April 30, 2012 and reduced the Company's borrowing availability by \$3,333,333. Additionally, the agreement waived the liquidity ratio covenant for the compliance period ended March 31, 2012. The Company also extended until April 30, 2012 the \$10 million guarantee provided by the Lenders. As a result of this extension, the Company issued the Lenders warrants to purchase 757,346 shares of common stock at \$0.6602 per share.

As of March 31, 2012, the Company had \$17.7 million outstanding under the revolving line of credit and had an unused line of approximately \$0.1 million with current borrowing capacity of \$17.8 million, including amounts already drawn. As of March 31, 2012, the Company had no remaining availability on its Lender loan and guarantee.

Subsequent to the balance sheet date, on May 1, 2012, the Company and its primary lender entered into an agreement in which the lender extended the maturity of the revolving line of credit from April 30, 2012 to May 15, 2012 and waived the defaults for failure to comply with the minimum liquidity ratio financial covenant for the compliance period ending April 30, 2012. The Company also amended its agreement, with the Lenders to extend the \$10 million loan guarantee through May 15, 2012. The Company granted warrants to purchase an aggregate of 609,756 shares of Common Stock in exchange for the extension of the guarantee. Refer to Note 14 for discussion of a financing transaction which further amends the agreement with the primary lender.

Term note

Under the 2010 amendment to the loan agreement, the Company entered into a \$10 million term loan maturing on December 31, 2013, with \$2 million of principal due in 2011 and \$4 million of principal due in each of 2012 and 2013. Interest on the term loan accrued at the rate of prime plus 3.5%. Under the September 2011 amendment of the loan agreement, the interest rate on the term loan was increased to prime plus 5.5%. Under this agreement, the Company provided its primary lender with warrants to purchase 111,111 shares of common stock. The warrants are exercisable at \$3.60 per share, beginning on December 17, 2010 and expiring on December 17, 2015. The fair value of these warrants of \$228,332, calculated using the Black Scholes method, will be deferred and amortized to interest expense ratably over the life of the term loan.

In the event that the covenants of the loan agreement are not met, the primary lender could call the Company's outstanding debt. Under ASC 470 Debt, callable obligations are classified as current unless the creditor waives the right to call the debt for a period of more than one year or it is probable that the violation will be cured within the grace period provided by the lender. Because the lender waived the covenant only for the month ended March 31, 2012 and without a future capital transaction, the Company did not expect to cure the violation prior to April 30, 2012, the entire term note is classified as short-term debt as of March 31, 2012.

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

Cowen Debt

In November 2011, the Company entered into a loan agreement with Cowen. Under the agreement the Company borrowed from Cowen \$15 million. The Company may borrow up to an additional \$5 million in the aggregate based on the achievement by the Company of certain milestones related to *Niobe* system sales in 2012. The loan will be repaid through, and secured by, royalties payable to the Company under its Development, Alliance and Supply Agreement with Biosense Webster, Inc. The Biosense Agreement relates to the development and distribution of magnetically enabled catheters used with Stereotaxis' *Niobe* system in cardiac ablation procedures. Under the terms of the Agreement, Cowen will be entitled to receive 100% of all royalties due to the Company under the Biosense Agreement until the loan is repaid. The loan is a full recourse loan, matures on December 31, 2018, and bears interest at an annual rate of 16% payable quarterly with royalties received under the Biosense Agreement. If the payments received by the Company under the Biosense Agreement are insufficient to pay all amounts of interest due on the loan, then such deficiency will increase the outstanding principal amount on the loan. After the loan obligation is repaid, the royalties under the Biosense Agreement will again be paid to the Company. The loan is also secured by certain assets and intellectual property of the Company. The Agreement also contains customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender under the Amended Loans Agreement described above.

Biosense Webster Advance

In July 2008, the Company and Biosense Webster entered into an amendment to their existing agreements relating to the development and sale of catheters. Pursuant to the amendment, Biosense Webster agreed to pay to the Company \$10.0 million as an advance on royalty amounts that were owed at the time the amendment was executed or would be owed in the future by Biosense Webster to the Company pursuant to the royalty provisions of one of the existing agreements. The Company and Biosense Webster also agreed that an aggregate of up to \$8.0 million of certain agreed upon research and development expenses that were owed at the time the amendment was executed or may be owed in the future by the Company to Biosense Webster pursuant to the existing agreement would be deferred and will be due, together with any unrecouped portion of the \$10.0 million royalty advance, no later than December 31, 2011. Interest on the outstanding and unrecouped amounts of the royalty advance and deferred research and development expenses accrued at an interest rate of the prime rate plus 0.75%. Outstanding royalty advances and deferred research and development expenses and accrued interest thereon were recouped by Biosense Webster by deductions from royalty amounts otherwise owed to the Company from Biosense Webster pursuant to the existing agreement. Approximately \$18.0 million had been advanced by Biosense Webster to the Company pursuant to the amendment. As of December 31, 2011, these amounts plus interest accrued thereon had been repaid in full, in accordance with the agreement.

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

10. Stockholders' Equity

Stock Award Plans

The Company has various stock plans that permit the Company to provide incentives to employees and directors of the Company in the form of equity compensation that are described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. At March 31, 2012, the Board of Directors had reserved a total of 5,218,687 shares of the Company's common stock to provide for current and future grants under its various equity plans.

At March 31, 2012, the total compensation cost related to options, stock appreciation rights and non-vested stock granted to employees under the Company's stock award plans but not yet recognized was approximately \$5.4 million, net of estimated forfeitures of approximately \$2.1 million. This cost will be amortized over a period of up to four years on a straight-line basis over the underlying estimated service periods and will be adjusted for subsequent changes in estimated forfeitures and anticipated vesting periods.

A summary of the option and stock appreciation rights activity for the three months ended March 31, 2012 is as follows:

	Number of Options/SARs	Range of Exercise Price	Weighted Average Exercise Price per Share
Outstanding, December 31, 2011	5,627,332	\$1.00 - \$12.55	\$ 4.85
Granted	30,250	\$0.81 - \$0.81	\$ 0.81
Exercised	—	\$0 - \$0	\$ —
Forfeited	(903,676)	\$1.00 - \$10.24	\$ 6.29
Outstanding, March 31, 2012	<u>4,753,906</u>	\$0.81 - \$12.55	\$ 4.55

A summary of the restricted share grant activity for the three months ended March 31, 2012 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding, December 31, 2011	526,588	\$ 3.42
Granted	852,500	\$ 0.80
Vested	(5,325)	\$ 6.65
Forfeited	(138,400)	\$ 2.23
Outstanding, March 31, 2012	<u>1,235,363</u>	\$ 1.73

A summary of the restricted stock unit activity for the three months ended March 31, 2012 is as follows:

	Number of Restricted Shares Units	Weighted Average Grant Date Fair Value per Unit
Outstanding, December 31, 2011	988,202	\$ 1.09
Granted	144,706	\$ 0.85
Vested	(176,313)	\$ 1.09
Forfeited	(85,475)	\$ 1.09
Outstanding, March 31, 2012	<u>871,120</u>	\$ 1.05

A summary of the restricted stock outstanding as of March 31, 2012 is as follows:

	Number of Shares
Time based restricted shares	170,263
Performance based restricted shares	1,065,100
Outstanding, March 31, 2012	<u>1,235,363</u>

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

11. Warrants Liability

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

In accordance with general accounting principles for fair value measurement, the Company's warrants in the amount of \$313,485 were measured at fair value on a recurring basis as of March 31, 2012 and were valued using Level 3 valuation inputs. A Black-Scholes model was used to value the Company's warrants at March 31, 2012 using the following assumptions: 1) dividend yield of 0%; 2) volatility of 77%; 3) risk-free interest rate of 0.51%; and 4) expected life of 2.25 years. The fair value of the outstanding derivative instrument and the effect on the Statement of Operations is as follows:

	Fair Value of Warrants
Balance, December 31, 2011	<u>\$ 125,415</u>
Change in fair value	188,070
Balance, March 31, 2012	<u>\$ 313,485</u>

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

12. Product Warranty Provisions

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

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

	March 31, 2012
Warranty accrual, December 31, 2011	<u>\$ 691,832</u>
Warranty expense incurred	140,846
Payments made	<u>(200,526)</u>
Warranty accrual, March 31, 2012	<u>\$ 632,152</u>

13. Commitments and Contingencies

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

In 2011, the Company entered into a letter of credit to support a commitment in the amount of less than \$0.1 million. This letter of credit is valid through 2015.

14. Subsequent Events

On May 7, 2012, the Company entered into agreements to raise approximately \$18.5 million. The financing includes a \$10 million private offering of common stock and \$8.5 million of unsecured, subordinated, convertible promissory debentures. The Company will raise \$10 million through the issuance of approximately 21.7 million shares of common stock and 6-year warrants to purchase approximately 21.7 million additional shares of common stock. In connection with the debentures, the Company issued warrants to purchase common stock equal to 100% of the shares underlying the debentures, or approximately 25.2 million shares. Net proceeds from these financings will be used to repay \$7 million of the revolving credit facility guarantee provided by the Lenders. The Company also amended its credit agreement with its primary lender, including extending its revolving credit facility to March 31, 2013 and decreasing the availability from \$20 million to \$13 million.

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, 2011. Operating results are not necessarily indicative of results that may occur in future periods.

This report includes various forward-looking statements that are subject to risks and uncertainties, many of which are beyond our control. Our actual results could differ materially from those anticipated in these forward looking statements as a result of various factors, including those set forth in Item 1A "Risk Factors" and in our Annual Report on Form 10-K for the year ended December 31, 2011. Forward-looking statements discuss matters that are not historical facts and include, but are not limited to, discussions regarding our operating strategy, sales and marketing strategy, regulatory strategy, industry, economic conditions, financial condition, liquidity and capital resources and results of operations. Such statements include, but are not limited to, statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "estimates," "projects," "can," "could," "may," "will," "would," or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not unduly rely on these forward-looking statements, which speak only as of the date on which they were made. They give our expectations regarding the future, but are not guarantees. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

Overview

Stereotaxis designs, manufactures and markets the *Epoch* Solution, which is an advanced remote robotic navigation system for use in a hospital's interventional surgical suite, or "interventional lab", that we believe revolutionizes the treatment of arrhythmias and coronary artery disease by enabling enhanced safety, efficiency and efficacy for catheter-based, or interventional, procedures. The *Epoch* Solution is comprised of the *Niobe* ES Robotic Magnetic Navigation System ("*Niobe* ES system"), *Odyssey* Information Management Solution ("*Odyssey* Solution"), and the *Vdrive* Robotic Navigation System.

The *Niobe* system is designed to enable physicians to complete more complex interventional procedures by providing image guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures and reduced x-ray exposure.

In addition to the *Niobe* system and its components, Stereotaxis also has developed the *Odyssey* Solution, which consolidates all lab information enabling doctors to focus on the patient for optimal procedure efficiency. The system also features a remote viewing and recording capability called *Odyssey Cinema*, which is an innovative solution delivering synchronized content for optimized workflow, advanced care and improved productivity. This tool includes an archiving capability that allows clinicians to store and replay entire procedures or segments of procedures. This information can be accessed from locations throughout the hospital local area network and over the global *Odyssey* Network providing physicians with a tool for clinical collaboration, remote consultation and training.

Our *Vdrive* Robotic Navigation System provides navigation and stability for diagnostic and therapeutic devices designed to improve interventional procedures. The *Vdrive* Robotic Navigation System complements the *Niobe* ES system control of therapeutic catheters for fully remote procedures and enables single-operator workflow and is sold as two options, the *Vdrive* System and the *Vdrive Duo* System. In addition to the *Vdrive* System and the *Vdrive Duo* System, we also manufacture and market various disposable components which can be manipulated by these systems.

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

The core components of Stereotaxis systems have received regulatory clearance in the U.S., Europe, Canada and elsewhere; the V-Loop™ circular catheter manipulator is currently under regulatory review by the U.S. Food and Drug Administration.

Since our inception, we have generated significant losses. As of March 31, 2012, we had incurred cumulative net losses of approximately \$381 million. The Company expects such losses to continue through at least the year ended December 31, 2012. In May 2011, the Company introduced the *Niobe* ES, which is the latest generation of the *Niobe* Robotic Magnetic Navigation System and will replace the *Niobe* II system going forward. Due to the fact that the *Niobe* ES system and upgrades from *Niobe* II to *Niobe* ES systems were not available to customers until December 2011, the product change created a rapid shift away from sales of the current *Niobe* II system, resulting in lower System Revenue in 2011. As of March 31, 2012, the Company had performed 25 installations to upgrade *Niobe* II systems to *Niobe* ES systems and has received positive feedback from the physicians at these sites. During the quarter ended September 30, 2011, the Company implemented a detailed plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. By December 31, 2011, the Company completed the majority of the operating expense declines through headcount reductions and discretionary spending cuts and continues to implement processes and changes to further reduce operating expenses.

[Table of Contents](#)

As a result of losses incurred, the cash balance at March 31, 2012 was \$10.5 million. During the quarter ended March 31, 2012 and subsequent to the balance sheet date, the Company amended agreements with its primary lender. See Note 9 for additional details. Subsequent to the balance sheet date, the Company entered into financing agreements to raise approximately \$18.5 million. See Note 14 for additional details.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. We review our estimates and judgments on an on-going basis. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We believe the following accounting policies are critical to the judgments and estimates we use in preparing our financial statements. For a complete listing of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2011.

Revenue Recognition

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

Under our revenue recognition policy, a portion of revenue for the *Niobe*, *Odyssey Vision*, *Odyssey Cinema*, and *Vdrive* systems is recognized upon delivery, provided that title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. Revenue for *Niobe*, *Odyssey Vision Standard HD*, *Odyssey Vision Quad*, *Odyssey Enterprise Cinema*, and *Vdrive* systems is recognized upon delivery due to the fact that third parties became qualified to perform installations. Revenue is recognized for other types of *Odyssey* systems upon completion of installation, since there are no qualified third party installers. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since these arrangements do not include an installation element or right of return privileges. The Company does not recognize revenue in situations in which inventory remains at a Stereotaxis warehouse or in situations in which title and risk of loss have not transferred to the customer. However, the Company may deliver systems to a non-hospital site at the customer's request as outlined in the terms and conditions of the sales agreement, in which case the Company evaluates whether the substance of the transaction meets the delivery and performance requirements for revenue recognition under "bill and hold" guidance. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue.

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

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

Results of Operations

Comparison of the Three Months Ended March 31, 2012 and 2011

Revenue. Revenue increased from \$10.2 million for the three months ended March 31, 2011 to \$12.3 million for the three months ended March 31, 2012, an increase of approximately 20%. Revenue from the sale of systems increased from \$4.3 million to \$5.2 million, an increase of approximately 21%. We recognized revenue on two *Niobe* systems, a total of \$1.4 million for *Niobe* ES upgrades, and a total of \$2.0 million for *Odyssey* and *Odyssey Cinema* systems during the 2012 period, versus one *Niobe* system and a total of \$2.7 million for *Odyssey* and *Odyssey Cinema* systems during the 2011 period. Revenue from sales of disposable interventional devices, service and accessories increased to \$7.1 million for the three months ended March 31, 2012 from \$5.9 million for the three months ended March 31, 2011, an increase of approximately 20%. The increase was attributable to the increased base of installed systems, the resulting disposable sales and service contracts, as well as favorable pricing.

Cost of Revenue. Cost of revenue increased from \$3.0 million for the three months ended March 31, 2011 to \$3.8 million for the three months ended March 31, 2012, an increase of approximately 25%. Cost of revenue for systems sold increased from \$2.2 million for the three months ended March 31, 2011 to \$2.3 million for the three months ended March 31, 2012, an increase of approximately 7%. This increase was primarily due to *Niobe* ES upgrades. Cost of revenue for disposables, service and accessories increased from \$0.8 million for the three months ended March 31, 2011 to \$1.4 million for the three months ended March 31, 2012, an increase of approximately 73%. The increase was primarily due to *Niobe* ES upgrades received through premium service packages which include rights to new hardware. As a percentage of our total revenue, overall gross margin decreased to 69% for the three months ended March 31, 2012 from 71% for the three months ended March 31, 2011. Gross margin for systems was 55% for the three months ended March 31, 2012 compared to 49% for the three months ended March 31, 2011. The increase was related to higher product mix of *Niobe* systems. Gross margin for disposables, service and accessories was 80% for the current quarter compared to 86% for the three months ended March 31, 2011. The decrease is due to *Niobe* ES upgrades received through service contracts.

Research and Development Expenses. Research and development expenses decreased from \$3.4 million for the three months ended March 31, 2011 to \$2.8 million for the three months ended March 31, 2012, a decrease of approximately 17%. The decrease is primarily due to the completion of major development efforts of the *Epoch* Solution and *Odyssey* system upgrades in 2011, as well as reduced headcount expenses as part of the Company's efforts to reduce operating expenses in 2012.

Sales and Marketing Expenses. Sales and marketing expenses decreased from \$8.3 million for the three months ended March 31, 2011 to \$6.0 million for the three months ended March 31, 2012, a decrease of approximately 28%. The decrease was due to reduced headcount expenses and a reduction in marketing and consulting expenses as part of the Company's efforts to reduce operating expenses.

General and Administrative Expenses. General and administrative expenses include regulatory, clinical, finance, information systems, legal, general management and training expenses. General and administrative expenses decreased to \$3.9 million from \$4.3 million for the three months ended March 31, 2012 and 2011, respectively, a decrease of approximately 9%. The decrease was primarily due to lower costs due to better alignment between customer training and clinical adoption, partially offset by foreign currency effects.

[Table of Contents](#)

Other Income (Expense). Other income (expense) represents the change in market value of certain warrants classified as a derivative and recorded as a current liability under general accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity's own stock.

Interest Expense. Interest expense increased to \$1.5 million for the three months ended March 31, 2012 from \$0.8 million for the three months ended March 31, 2011, due to higher average debt balances outstanding and the increased interest rate applicable to the the Cowen debt and the term loan.

Liquidity and Capital Resources

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents. At March 31, 2012 we had \$10.5 million of cash and equivalents. We had a working capital deficit of approximately \$15.4 and \$6.6 million as of March 31, 2012 and December 31, 2011, respectively. The decrease in working capital is due principally to the \$5.8 million net loss for the first three months of 2012.

[Table of Contents](#)

Cash flow

The following table summarizes our cash flow by operating, investing and financing activities for each of three month periods ended March 31, 2012 and 2011 (in thousands):

	Three Months Ended March 31,	
	2012	2011
Cash Flow used in Operating Activities	\$ (4,219)	\$ (10,015)
Cash Flow used in Investing Activities	\$ (82)	\$ (333)
Cash Flow provided by Financing Activities	\$ 815	\$ 5,494

Net cash used in operating activities. We used approximately \$4.2 million and \$10.0 million of cash for operating activities during the three months ended March 31, 2012 and 2011, respectively. This decrease was primarily driven by a decrease in the net loss of \$3.7 million, a net decrease in cash used in operating assets and liabilities of \$0.8 million, and a decrease of \$0.8 million due to the net presentation of the Biosense Webster royalty in operating activities in 2011.

Net cash used in investing activities. We used approximately \$0.1 million of cash for purchases of equipment for the three month period ended March 31, 2012 compared to \$0.3 million for the three month period ended March 31, 2011. The decrease was due to higher expenditures in 2011 for equipment related to new product development as well as equipment used for trade shows.

Net cash provided by financing activities. We generated approximately \$0.8 million of cash for the three month period ended March 31, 2012 compared to \$5.5 million generated for the three month period ended March 31, 2011. This decrease in cash generated was primarily due to payments under our revolving line of credit and term note.

We expect to have negative cash flow from operations throughout 2012. We also expect to continue the development and commercialization of our existing products and, to a lesser extent, our research and development programs and the advancement of new products into clinical development. We expect that our sales and marketing, research and development, and general and administrative expenses will decrease throughout 2012. Although our operating expenses will be reduced in 2012, we may be required to raise capital or pursue other financing strategies to continue our operations. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with cash resources primarily generated from the proceeds of our past and future public offerings, private sales of our equity securities and working capital and equipment financing loans. In the future, we may finance future cash needs through the sale of other equity securities, strategic collaboration agreements and debt financings. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors outside of our control.

The \$20 million working capital facility with our primary lender as well as the financing commitment provided by the Lenders expired on April 30, 2012. Subsequent to the balance sheet date, we amended the agreements with our primary lender to extend the maturity of the working capital facility until May 15, 2012.

We expect to amend the agreement to extend the maturity of our working capital facility to March 31, 2013, and decrease the \$10 million sublimit for borrowings supported by guarantees from the Lenders to \$3 million. The agreement has been signed and placed in escrow, subject to release and effectiveness upon closing of the transaction described in Note 14 above.

We cannot assure that our existing cash, cash equivalents and borrowing facilities will be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months. In the event that the amendment of our existing debt facility as described above is not completed, it is probable that we will not meet all covenants of our bank loan agreement as of May 31, 2012. In the event that our covenants are not met, it is possible that our primary lender could call our outstanding debt. We also cannot assure that additional financing will be available on a timely basis on terms acceptable to us or at all. If adequate funds are not available to us, through the extension of our existing debt facility or otherwise, we may not be able to maintain customer and vendor relationships; hire, train and retain employees; maintain or expand our operations; or respond to competitive pressures. Further, we could be required to delay development or commercialization of new products, to license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize ourselves or to reduce the sales, marketing, customer support or other resources devoted to our products, any of which could have a material adverse effect on our business, financial condition and results of operations.

[Table of Contents](#)

Borrowing facilities

As of March 31, 2012, the Company's borrowing facilities were comprised of a revolving line of credit and a term note maintained with its primary lender, Silicon Valley Bank, as well as a term note maintained with Cowen Healthcare Royalties Partners II, L.P. ("Cowen"). During 2011, the Company paid off the remaining amount due on its advance from Biosense Webster, Inc., resulting in a balance of \$0 as of December 31, 2011.

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

In December 2010, the Company amended its loan agreement with our primary lender to extend the maturity of the current working capital line of credit from March 31, 2011 to March 31, 2012. The amendment retained the \$30 million total availability under the line. The revised agreement retained the \$10 million sublimit for borrowings supported by guarantees from stockholders who are affiliates of two members of its board of directors ("Lenders") and considered to be related parties. Under the revised facility, we were required to maintain a minimum "tangible net worth" and liquidity ratio as defined in the agreement. Interest on the facility accrued at the rate of prime plus 0.5% subject to a floor of 6% for the amount under guarantee and prime plus 1.75% subject to a floor of 7% for the remaining amounts.

In September 2011, the Company amended its agreement with its primary lender. Pursuant to the amendment, the lender waived the minimum tangible net worth financial covenant contained in the original agreement for the compliance period ended September 30, 2011. The Company was in compliance with the liquidity ratio covenant for this period. The amendment also reduced the availability amount of all credit extensions, other than the term loan, from \$30 million to \$20 million, and modified the interest rate applicable to the term loan from the lender's prime rate plus 3.5% to the lender's prime rate plus 5.5%.

On November 30, 2011, the Company entered into a Second Amended and Restated Loan and Security Agreement with Silicon Valley Bank ("Amended Loan Agreement"). Under the Amended Loan Agreement, the Company agreed to revised tangible net worth and liquidity ratio covenants. Further, certain intellectual property assets of the Company were added to the collateral which secures repayment of the loan. Finally, the Amended Loan Agreement permits the Company to repay Cowen under the Agreement with the royalties due to the Company under the Biosense Agreement (the "Biosense Agreement"), as described below.

On March 30, 2012, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from March 31, 2012 to April 30, 2012 and reduced the Company's borrowing availability by \$3,333,333. Additionally, the agreement waived the liquidity ratio covenant for the compliance period ended March 31, 2012. The Company also extended until April 30, 2012 the \$10 million guarantee provided by the Lenders. As a result of this extension, the Company issued the Lenders warrants to purchase 757,346 shares of common stock at \$0.6602 per share.

As of March 31, 2012, the Company had \$17.7 million outstanding under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one month in arrears. As of March 31, 2012, the Company had a borrowing capacity of \$17.8 million based on the Company's collateralized assets, including amounts already drawn. As such, the Company had the ability to borrow an additional \$0.1 million under the revolving line of credit at March 31, 2012. As of March 31, 2012, the Company had no remaining availability on its Lender loan and guarantee.

Subsequent to the balance sheet date, on May 1, 2012, the Company and its primary lender entered into an agreement in which the lender extended the maturity of the revolving line of credit from April 30, 2012 to May 15, 2012 and waived the defaults for failure to comply with the minimum liquidity ratio financial covenant for the compliance period ending April 30, 2012. The Company also amended its agreement, with the Lenders to extend the \$10 million loan guarantee through May 15, 2012. The Company granted warrants to purchase an aggregate of 609,756 shares of Common Stock in exchange for the extension of the guarantee. Refer to Note 14 for discussion of a financing transaction which further amends the agreement with the primary lender.

Under the 2010 amendment to the loan agreement, the Company entered into a \$10 million term loan maturing on December 31, 2013 with \$2 million of principal due in 2011 and \$4 million of principal due in each of 2012 and 2013. Interest on the term loan accrued at the rate of prime plus 3.5%. Under this agreement, the Company provided its primary lender with warrants to purchase 111,111 shares of common stock. The warrants are exercisable at \$3.60 per share, beginning on December 17, 2010 and expiring on December 17, 2015. The fair value of these warrants of \$228,332, calculated using the Black Scholes method, will be deferred and amortized to interest expense ratably over the life of the term loan.

In September 2011, the Company amended its agreement with its primary lender. The amendment increased the interest rate applicable to the term loan from the lender's prime rate plus 3.5% to the lender's prime rate plus 5.5%.

In the event that the covenants of the loan agreement are not met, the primary lender could call the Company's outstanding debt. Under ASC 470 Debt, callable obligations are classified as current unless the creditor waives the right to call the debt for a period of more than one year or it is probable that the violation will be cured within the grace period provided by the lender. Because the lender waived the covenant only for the month ended March 31, 2012 and without a future capital transaction, the Company did not expect to cure the violation prior to April 30, 2012, the entire term note is classified as short-term debt as of March 31, 2012.

[Table of Contents](#)

In November 2011, the Company entered into a loan agreement with Cowen. Under the agreement the Company borrowed from Cowen \$15 million. The Company may borrow up to an additional \$5 million in the aggregate based on the achievement by the Company of certain milestones related to *Niobe* system sales in 2012. The loan will be repaid through, and secured by, royalties payable to the Company under the Biosense Agreement. The Biosense Agreement relates to the development and distribution of magnetically enabled catheters used with Stereotaxis' *Niobe* system in cardiac ablation procedures. Under the terms of the Agreement, Cowen will be entitled to receive 100% of all royalties due to the Company under the Biosense Agreement until the loan is repaid. The loan is a full recourse loan, matures on December 31, 2018, and bears interest at an annual rate of 16% payable quarterly with royalties received under the Biosense Agreement. If the payments received by the Company under the Biosense Agreement are insufficient to pay all amounts of interest due on the loan, then such deficiency will increase the outstanding principal amount on the loan. After the loan obligation is repaid, royalties under the Biosense Agreement will again be paid to the Company. The loan is also secured by certain assets and intellectual property of the Company. The Agreement also contains customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender under the Amended Loans Agreement described above.

In July 2008, the Company and Biosense Webster entered into an amendment to their existing agreements relating to the development and sale of catheters. Pursuant to the amendment, Biosense Webster agreed to pay to the Company \$10.0 million as an advance on royalty amounts that were owed at the time the amendment was executed or would be owed in the future by Biosense Webster to the Company pursuant to the royalty provisions of one of the existing agreements. The Company and Biosense Webster also agreed that an aggregate of up to \$8.0 million of certain agreed upon research and development expenses that were owed at the time the amendment was executed or may be owed in the future by the Company to Biosense Webster pursuant to the existing agreement would be deferred and will be due, together with any unrecouped portion of the \$10.0 million royalty advance, no later than December 31, 2011. Interest on the outstanding and unrecouped amounts of the royalty advance and deferred research and development expenses accrued at an interest rate of the prime rate plus 0.75%. Outstanding royalty advances and deferred research and development expenses and accrued interest thereon were recouped by Biosense Webster by deductions from royalty amounts otherwise owed to the Company from Biosense Webster pursuant to the existing agreement. The Company has the right to prepay any amounts due pursuant to the Amendment at any time without penalty. Approximately \$18.0 million had been advanced by Biosense Webster to the Company pursuant to the amendment. As of December 31, 2011, these amounts plus interest accrued thereon had been repaid in full, in accordance with the agreement.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

We operate mainly in the U.S., Europe and Asia and we expect to continue to sell our products both within and outside of the U.S. Although the majority of our revenue and expenses are transacted in U.S. dollars, a portion of our activities are conducted in Euros and to a lesser extent, in other currencies. As such, we have foreign exchange exposure with respect to non-U.S. dollar revenues and expenses as well as cash balances, accounts receivable and accounts payable balances denominated in non-US dollar currencies. Our international activities are subject to risks typical of international activities, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Future fluctuations in the value of these currencies may affect the price competitiveness of our products. In addition, because we have a relatively long installation cycle for our systems, we will be subject to risk of currency fluctuations between the time we execute a purchase order and the time we deliver the system and collect payments under the order, which could adversely affect our operating margins. As of March 31, 2012 we have not hedged exposures in foreign currencies or entered into any other derivative instruments.

For the three months ended March 31, 2012, sales denominated in foreign currencies were approximately 24% of total revenue and as such, our revenue would have decreased by approximately \$0.3 million if the U.S. dollar exchange rate used would have strengthened by 10%. For the three months ended March 31, 2012, expenses denominated in foreign currencies were approximately 9% of our total expenses and as such, our operating expenses would have decreased less than \$0.1 million if the U.S. dollar exchange rate used would have strengthened by 10%. In addition, we have assets and liabilities denominated in foreign currencies. A 10% strengthening of the U.S. dollar exchange rate against all currencies with which we have exposure at March 31, 2012 would have decreased the carrying amounts of those net assets by approximately \$0.3 million.

Interest Rate Risk

We have exposure to interest rate risk related to our investment portfolio. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our invested cash without significantly increasing the risk of loss. Our interest income is sensitive to changes in the general level of U.S. interest rates. When appropriate, we invest our excess cash primarily in U.S. government securities and marketable debt securities of financial institutions and corporations with strong credit ratings. These instruments generally have maturities of two years or less when acquired. We do not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions. Accordingly, we believe that while the instruments we typically purchase are subject to changes in the financial standing of the issuer of such securities, we are not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive instruments.

We have exposure to market risk related to any investments we might hold. Market liquidity issues might make it impossible for the Company to liquidate its holdings or require that the Company sell the securities at a substantial loss. As of March 31, 2012, the Company did not hold any investments.

We have exposure to interest rate risk related to our borrowings as the interest rates for certain of our outstanding loans are subject to increase should the interest rate increase above a defined percentage. Because certain of our outstanding debt is subject to minimum interest rates ranging from 6.0% to 7.0%, a hypothetical increase in interest rates of 100 basis points would have resulted in a less than \$0.1 million increase in interest expense for the quarter ended March 31, 2012.

Inflation Risk

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

STEREOTAXIS, INC.
PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, on October 7, 2011, a purported securities class action was filed against the Company, one of the Company's current executive officers and a past executive officer in the U.S. District Court for the Eastern District of Missouri by Kevin Pound, a purported shareholder of the Company. On December 29, 2011, the court granted an unopposed motion appointing Local 522 Pension Fund as Lead Plaintiff in the action and granting Lead Plaintiff leave to file an Amended Complaint, which Lead Plaintiff filed on March 19, 2012. The Amended Complaint alleges that, during the period from February 28, 2011 through August 9, 2011, the Company and certain of its officers made materially false and misleading statements regarding the Company's financial condition and future business prospects, in violation of sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The Amended Complaint seeks unspecified damages, costs, attorneys' fees and such other relief as the Court may deem appropriate. Pursuant to the Court's current scheduling order, Defendants have until May 18, 2012 to answer or otherwise plead in response to the Amended Complaint, at which time the Company expects to file a motion to dismiss the Amended Complaint. The Company believes the complaint is without merit and intends to vigorously defend against it. However, litigation is inherently uncertain and it is too early in this proceeding to predict the outcome of this lawsuit or to reasonably estimate possible losses, if any, related thereto. In addition, the Company has obligations, under certain circumstances, to indemnify the individual defendants with respect to claims asserted against them and otherwise to the fullest extent permitted under Delaware law and the Company's bylaws and certificate of incorporation.

As described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, on December 2, 2011, a purported shareholder derivative action was filed in the U.S. District Court for the Eastern District of Missouri by Carl Zorn, a purported shareholder of the Company, against the directors of the Company and the Company as a nominal defendant. The Complaint in this action alleges that the individual defendants breached their fiduciary duties to the Company, engaged in gross mismanagement and caused waste of corporate assets of the Company by allowing the Company and certain of its officers to make the same allegedly false and misleading statements regarding the Company's financial condition and future business prospects that are at issue in the purported class action. The Complaint seeks unspecified damages, restitution and other equitable relief, as well as costs and attorneys' fees from the named defendants on behalf of the Company. At the request of all parties, on March 22, 2012, the Court entered an order staying the case pending resolution of the motion to dismiss that is expected to be filed in the securities class action. The Company believes the complaint is without merit and intends to vigorously defend against it. However, litigation is inherently uncertain and it is too early in this proceeding to predict the outcome of this lawsuit or to reasonably estimate possible losses, if any, related thereto. In addition, the Company has obligations, under certain circumstances, to indemnify the individual defendants with respect to claims asserted against them and otherwise to the fullest extent permitted under Delaware law and the Company's bylaws and certificate of incorporation.

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

ITEM 1A. RISK FACTORS

Our Risk Factors are discussed in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [RESERVED]

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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: May 10, 2012

By: _____ /s/ MICHAEL P. KAMINSKI
Michael P. Kaminski,
Chief Executive Officer

Date: May 10, 2012

By: _____ /s/ SAMUEL W. DUGGAN II
Samuel W. Duggan II,
Chief Financial Officer

EXHIBIT INDEX

<u>Number</u>	<u>Description</u>
3.1(1)	Restated Certificate of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 of the Registrant's Form 10Q (file No. 000-50884) for the fiscal quarter ended September 30, 2004.
3.2(1)	Restated Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2004.
4.1	Form of Warrant issued pursuant to that certain Fourth Amendment to the Note and Warrant Purchase Agreement dated March 30, 2012 between Company and certain investors named therein, filed herewith.
10.1	Waiver Agreement between the Company, Stereotaxis International, Inc. and Silicon Valley Bank dated February 29, 2012, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K (File No. 000-50884) filed on March 5, 2012.
10.2	First Loan Modification Agreement (Domestic), between the Company, Stereotaxis International, Inc. and Silicon Valley Bank, dated March 30, 2012, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K (File No. 000-50884) filed on April 2, 2012.
10.3	Export-Import Bank First Loan Modification Agreement, between the Company, Stereotaxis International, Inc. and Silicon Valley Bank, dated March 30, 2012 incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K (File No. 000-50884) filed on April 2, 2012.
10.4	Fourth Amendment to the Note and Warrant Purchase Agreement among affiliated entities of Sanderling Venture Partners, Alafi Capital Company and Company, dated March 30, 2012, incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K (File No. 000-50884) filed on April 2, 2012.
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).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) This exhibit was previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (filed November 12, 2004) (File No. 000-50884), and is incorporated herein by reference.

Form of April 2012 Extension Warrant

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT (AS DEFINED HEREIN), OR UNDER ANY STATE SECURITIES LAWS, IN RELIANCE UPON EXEMPTIONS FROM REGISTRATION FOR NON-PUBLIC OFFERINGS. THIS SECURITY 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.

Issue Date: March 30, 2012

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 on or after the Issue Date above, but not later than 5:00 P.M., St. Louis, Missouri time, on March 30, 2017 (the "Expiration Date"), []¹ shares ("Warrant Shares") of Common Stock, \$0.001 par value ("Common Stock"), of the Company, at an exercise price per share equal to \$0.6602 (the exercise price in effect from time to time hereafter being herein called the "Warrant Price"). 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, dated February 21, 2008, amended by the First Amendment to Note and Warrant Purchase Agreement, made effective as of December 29, 2008, the Second Amendment to Note and Warrant Purchase Agreement, dated as of October 9, 2009, the Third Amendment to Note and Warrant Purchase Agreement, dated as of November 10, 2010, and by the Fourth Amendment to Note and Warrant Purchase Agreement, dated as of March 30, 2012 (as amended, the "Purchase Agreement") by and among the Company, the Warrantholder and the other lenders set forth therein. Capitalized terms used herein and not defined shall have the meaning specified in the Purchase Agreement.

¹ Insert 378,673 for Alafi Capital Company LLC; 363,266 for Sanderling Venture Partners VI Co-Investment Fund, L.P.; 7,030 for Sanderling VI Beteiligungs GmbH & Co KG; and 8,377 for Sanderling VI Limited Partnership.

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 Warranholder.

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 (the "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 Warranholder or holder shall include any such transferee.

3. Exercise of Warrant. The Warranholder 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 Issue 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 or portable document format (pdf) delivered by email), 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.

4. Cashless Exercise. (a) The Warranholder 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"):

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

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 Price of the Common Stock on NASDAQ 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.

(b) 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 The NASDAQ Global Select Market (“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.

5. Compliance with the Securities Act. 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, 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, 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. Insufficient Authorized Shares. If at any time while this Warrant remains outstanding the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of this Warrant at least a number of shares of Common Stock equal to (the "Required Reserve Amount") the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of all of this Warrant then outstanding (an "Authorized Share Failure"), then the Company shall, within 90 days after the occurrence of such Authorized Share Failure take action to increase the Company's authorized and unissued shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for this Warrant then outstanding. The Company shall not be in breach of its obligation to reserve the Required Reserve Amount during such period so long as it is taking good faith efforts to satisfy its obligations under this covenant.

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 after any request from time to time of the Warrantholder and within ten (10) business days upon the Company's receipt of this Warrant, the Company 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 Broadridge. 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.

4320 Forest Park Avenue, Suite 100

St. Louis, Missouri 63108

Fax: (314) 678-6110

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, if sent by facsimile 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. Subject to the restrictions on transfer described in Section 21 below, 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 or the Warrant Shares (other than pursuant to an effective registration statement under the Securities 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 Securities Act. Notwithstanding the foregoing, no formal notice or opinion of counsel shall be required for the transfer by an Warrantholder to any of the following (each, a "Permitted Transferee"): (x) any partner of a Warrantholder or to a retired partner of a Warrantholder, who retires after the date of this Warrant, (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 Warrant 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:

Certification of Principal Executive Officer

I, Michael P. Kaminski, certify that:

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

Date: May 10, 2012

/s/ Michael P. Kaminski

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

Certification of Principal Financial Officer

I, Samuel W. Duggan II, certify that:

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

Date: May 10, 2012

/s/ Samuel W. Duggan II

Samuel W. Duggan II
Chief Financial Officer
Stereotaxis, Inc.
(Principal Financial Officer)

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael P. Kaminski, Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: May 10, 2012

/s/ Michael P. Kaminski

Michael P. Kaminski
Chief Executive Officer
Stereotaxis, Inc.

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Samuel W. Duggan II, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: May 10, 2012

/s/ Samuel W. Duggan II

Samuel W. Duggan II
Chief Financial Officer
Stereotaxis, Inc.