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

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2013.

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

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

Commission File Number: 000-50884

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**STEREOTAXIS, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State of Incorporation)

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

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

63108  
(Zip Code)

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

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

The number of outstanding shares of the registrant's common stock on August 9, 2013 was 14,636,422.

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**STEREOTAXIS, INC.**  
**BALANCE SHEETS**

	<u>June 30,</u> <u>2013</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2012</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,113,768	\$ 7,777,718
Accounts receivable, net of allowance of \$338,419 and \$640,183 in 2013 and 2012, respectively	8,466,808	11,551,651
Current portion of long-term receivables	19,299	18,838
Inventories	5,580,167	5,098,241
Prepaid expenses and other current assets	2,294,529	3,492,067
Total current assets	20,474,571	27,938,515
Property and equipment, net	1,639,398	2,141,923
Intangible assets, net	1,829,403	1,979,320
Long-term receivables	19,521	73,199
Other assets	32,525	32,987
Total assets	<u>\$ 23,995,418</u>	<u>\$ 32,165,944</u>
<b>Liabilities and stockholders' deficit</b>		
Current liabilities:		
Short-term debt and current maturities of long-term debt	\$ 12,061,454	\$ 12,264,490
Accounts payable	3,944,680	3,556,688
Accrued liabilities	5,637,004	5,361,810
Deferred revenue	8,376,807	9,502,939
Warrants and debt conversion features	1,469,042	2,968,348
Total current liabilities	31,488,987	33,654,275
Long-term debt, less current maturities	17,809,026	16,824,736
Long-term deferred revenue	334,664	477,159
Other liabilities	—	—
Stockholders' deficit:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized, none outstanding at 2013 and 2012	—	—
Common stock, par value \$0.001; 300,000,000 shares authorized, 8,320,790 and 8,018,615 shares issued at 2013 and 2012, respectively	8,321	8,019
Additional paid in capital	367,133,231	366,053,627
Treasury stock, 4,015 shares at 2013 and 2012	(205,999)	(205,999)
Accumulated deficit	(392,572,812)	(384,645,873)
Total stockholders' deficit	(25,637,259)	(18,790,226)
Total liabilities and stockholders' deficit	<u>\$ 23,995,418</u>	<u>\$ 32,165,944</u>

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Revenue:</b>				
Systems	\$ 3,323,251	\$ 3,863,107	\$ 5,551,328	\$ 9,042,612
Disposables, service and accessories	6,410,156	6,649,791	12,590,284	13,753,514
Total revenue	9,733,407	10,512,898	18,141,612	22,796,126
<b>Cost of revenue:</b>				
Systems	1,602,480	2,175,971	2,793,833	4,518,381
Disposables, service and accessories	869,408	1,084,107	1,870,701	2,503,528
Total cost of revenue	2,471,888	3,260,078	4,664,534	7,021,909
Gross margin	7,261,519	7,252,820	13,477,078	15,774,217
<b>Operating expenses:</b>				
Research and development	1,484,096	2,196,073	3,013,303	5,021,280
Sales and marketing	4,254,546	6,223,330	9,110,560	12,222,069
General and administrative	3,276,967	3,469,346	6,700,708	7,342,219
Total operating expenses	9,015,609	11,888,749	18,824,571	24,585,568
Operating loss	(1,754,090)	(4,635,929)	(5,347,493)	(8,811,351)
Other income	893,642	9,269,424	1,499,744	9,081,354
Interest income	1,256	2,008	2,668	3,371
Interest expense	(2,147,600)	(1,829,076)	(4,081,858)	(3,279,859)
Net income (loss)	<u>\$ (3,006,792)</u>	<u>\$ 2,806,427</u>	<u>\$ (7,926,939)</u>	<u>\$ (3,006,485)</u>
<b>Net earnings (loss) per common share:</b>				
Basic	\$ (0.37)	\$ 0.42	\$ (0.98)	\$ (0.49)
Diluted	<u>\$ (0.37)</u>	<u>\$ 0.32</u>	<u>\$ (0.98)</u>	<u>\$ (0.49)</u>
<b>Weighted average shares used in computing net earnings (loss) per common share:</b>				
Basic	8,188,837	6,741,578	8,102,087	6,120,447
Diluted	<u>8,188,837</u>	<u>9,263,149</u>	<u>8,102,087</u>	<u>6,120,447</u>

See accompanying notes.

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

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (7,926,939)	\$ (3,006,485)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	495,152	669,040
Amortization	149,917	149,917
Amortization of deferred finance costs and debt discount	1,938,777	1,366,471
Share-based compensation	441,861	1,794,729
Gain on debt conversion	(2,095)	
Loss on asset disposal	7,373	4,122
Adjustment of warrants and convertible debt features	(1,497,649)	(9,081,354)
Interest due from issuance of stock	394,588	—
Changes in operating assets and liabilities:		
Accounts receivable	3,084,843	2,868,900
Other receivables	53,217	19,298
Inventories	(481,926)	(1,342,544)
Prepaid expenses and other current assets	653,439	(398,952)
Other assets	462	2,144
Accounts payable	387,992	(974,612)
Accrued liabilities	275,194	71,203
Deferred revenue	(1,268,627)	(552,786)
Other liabilities	—	(2,307)
Net cash used in operating activities	(3,294,421)	(8,413,216)
<b>Cash flows from investing activities</b>		
Purchase of equipment	—	(113,030)
Net cash used in investing activities	—	(113,030)
<b>Cash flows from financing activities</b>		
Payments of term loan	(2,000,000)	(2,000,000)
Proceeds from revolving line of credit	23,048,799	33,073,407
Payments of revolving line of credit	(23,759,722)	(40,363,204)
Proceeds from subordinated convertible debt, net of issuance costs	—	7,738,351
Proceeds from Healthcare Royalty Partners debt	2,500,000	—
Payments of Healthcare Royalty Partners debt	(158,773)	(925,533)
Proceeds from issuance of stock and warrants, net of issuance costs	167	9,167,756
Net cash provided by financing activities	(369,529)	6,690,777
Net decrease in cash and cash equivalents	(3,663,950)	(1,835,469)
Cash and cash equivalents at beginning of period	7,777,718	13,954,919
Cash and cash equivalents at end of period	<u>\$ 4,113,768</u>	<u>\$ 12,119,450</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*<sup>®</sup>, *Epoch*<sup>™</sup>, *Odyssey*<sup>®</sup>, *Odyssey Cinema*<sup>™</sup>, *Vdrive*<sup>™</sup>, *Vdrive Duo*<sup>™</sup>, *V-Loop*<sup>™</sup>, and *V-Sono*<sup>™</sup> 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 ("*Vdrive* 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 the *Odyssey Cinema* solution, 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* system provides navigation and stability for diagnostic and therapeutic devices designed to improve interventional procedures. The *Vdrive* 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. 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-Sono* ICE catheter manipulator has received U.S. clearance, and the *V-Loop* circular catheter manipulator is currently in clinical trials in order to obtain clearance by the U.S. Food and Drug Administration.

Since our inception, we have generated significant losses. As of June 30, 2013 we had incurred cumulative net losses of approximately \$393 million. In May 2011, the Company introduced the *Niobe* ES system, which is the latest generation of the *Niobe* Robotic Magnetic Navigation System and will replace the *Niobe* II system going forward. As of June 30, 2013, the Company had an installed base of 88 *Niobe* ES systems and has received positive feedback from the physicians at these sites. During the third quarter of 2011, the Company implemented a wide ranging plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. During the year ended December 31, 2012, the Company reduced operating expenses by approximately \$19 million or 31% over the prior year. We expect to incur additional losses throughout the remainder of 2013 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund additional sales and marketing initiatives.

**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 six month period ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013 or for future operating periods.

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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, 2012 as filed with the Securities and Exchange Commission (SEC) on April 1, 2013.

As described in Note 10, on July 10, 2012, the Company effected a one-for-ten reverse stock split of the Company's common stock. All information set forth in the financial statements and related notes gives effect to such reverse stock split.

### **Financial Instruments**

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including warrants and debt conversion features. 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"). See Note 11 for additional details.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for other financial instruments as of June 30, 2013 and December 31, 2012.

Cash equivalents, accounts receivable, and accounts payable 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.

### **Revenue and Costs of Revenue**

The Company adopted Accounting Standards Update 2009-13, *Multiple-Deliverable Revenue Arrangements* ("ASU 2009-13") in the fourth quarter of 2009, effective as of January 1, 2009. Prior to the adoption of this guidance, the Company followed previously issued guidance for general accounting principles for revenue arrangements with multiple deliverables. Under this previously issued guidance, we were required to continually evaluate whether we had proper evidence to identify separate units of accounting for deliverables within certain contractual arrangements with customers. If we were unable to support the determination of vendor-specific objective evidence ("VSOE") or third party evidence ("TPE") of fair value on the undelivered element, we could not recognize revenue for the delivered elements.

ASU 2009-13 permits management to estimate the selling price of undelivered components of a bundled sale for which it is unable to establish VSOE or TPE. This requires management to record revenue for certain elements of a transaction even though it might not have delivered other elements of the transaction, for which it was unable to meet the requirements for establishing VSOE or TPE. The adoption of the new guidance did not materially impact revenue reported in prior periods. The Company believes that the new guidance significantly improves the reporting of these types of transactions to more closely reflect the underlying economic circumstances. This guidance also prohibits the use of the residual method for allocating revenue to the various elements of a transaction and requires that the revenue be allocated proportionally based on the relative estimated selling prices.

Under our revenue recognition policy before and after the adoption of ASU 2009-13, 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 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.

### ***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



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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. 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.

### **Net Earnings (Loss) per Common Share ("EPS")**

Basic and diluted net loss per common share ("EPS") is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period.

The following table sets forth the computation of basic and diluted EPS:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Numerator:</b>				
Numerator for basic EPS	\$(3,006,792)	\$2,806,427	\$(7,926,939)	\$(3,006,485)
Effect of dilutive securities:				
Subordinated convertible debentures	—	203,830	—	—
Numerator for diluted EPS	<u>\$(3,006,792)</u>	<u>\$3,010,257</u>	<u>\$(7,926,939)</u>	<u>\$(3,006,485)</u>
<b>Denominator:</b>				
Denominator for basic EPS—weighted average shares	8,188,837	6,741,578	8,102,087	6,120,447
Effect of dilutive securities:				
Subordinated convertible debentures	—	2,521,571	—	—
Denominator for diluted EPS	<u>8,188,837</u>	<u>9,263,149</u>	<u>8,102,087</u>	<u>6,120,447</u>
Basic EPS	\$ (0.37)	\$ 0.42	\$ (0.98)	\$ (0.49)
Diluted EPS	\$ (0.37)	\$ 0.32	\$ (0.98)	\$ (0.49)

The following potential common shares were excluded from diluted EPS for the three months ended June 30, 2012 as they were antidilutive: 423,669 stock options and stock appreciation rights, 112,775 restricted share awards, 82,106 restricted stock units, and 6,099,476 warrants.

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 the three and six months ended June 30, 2013 and the six months ended June 30, 2012. The application of the two-class method of computing earnings per share under general accounting principles for participating securities is not applicable during these periods because the Company's unearned restricted shares do not contractually participate in its losses.

As of June 30, 2013, the Company had 280,652 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$45.22 per share and 6,204,274 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$8.72 per share. The Company had a weighted average of 30,471 and 41,461 unearned restricted shares outstanding for the three and six months period ended June 30, 2013.

### **Recently Issued Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "Update") 2013-02, "Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income ("AOCI"). The update requires that the Company present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of AOCI based on its source and the income statement line items affected by the reclassification. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2012. As the Company has no items of other comprehensive income, the Company is not required to report accumulated other comprehensive income.

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 adoption of this pronouncement did not have an impact on the financial statements.

In June 2011, the FASB issued new accounting guidance related to the presentation of comprehensive income that increases comparability between U.S. GAAP and International Financial Reporting Standards ("IFRS"). This guidance eliminates the current option to report other comprehensive income (OCI) and its components in the statement of changes in stockholders' equity and requires the presentation of a separate statement of comprehensive income. 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.

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**3. Inventory**

Inventory consists of the following:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Raw materials	\$3,028,506	\$ 3,303,053
Work in process	330,938	65,546
Finished goods	2,352,528	1,802,281
Reserve for obsolescence	(131,805)	(72,639)
Total inventory	<u>\$5,580,167</u>	<u>\$ 5,098,241</u>

**4. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of the following:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Prepaid expenses	\$ 242,408	\$ 330,756
Deferred cost of revenue	140,222	527,725
Derivative asset	79	1,736
Deferred financing costs	1,112,762	1,590,916
Deposits	799,058	1,040,934
Total prepaid expenses and other current assets	<u>\$2,294,529</u>	<u>\$ 3,492,067</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.

The derivative asset represents the fair value of a debt conversion feature that is part of the subordinated convertible debentures agreement. Refer to Notes 9 and 11 for discussion of the debentures and fair value measurement, respectively.

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### 5. Property and Equipment

Property and equipment consist of the following:

	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Equipment	\$ 8,704,778	\$ 8,762,041
Equipment held for lease	303,412	303,412
Leasehold improvements	<u>2,328,381</u>	<u>2,328,381</u>
	11,336,571	11,393,834
Less: Accumulated depreciation	<u>(9,697,173)</u>	<u>(9,251,911)</u>
Net property and equipment	<u>\$ 1,639,398</u>	<u>\$ 2,141,923</u>

### 6. Intangible Assets

On June 4, 2010, the Company entered into an agreement to issue 45,000 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 20,000 shares upon execution of the agreement and has issued an aggregate of 25,000 shares in annual installments on the first three anniversaries of the agreement. 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 June 30, 2013, the Company had total intangible assets, including those described above, of \$3,665,000. Accumulated amortization at June 30, 2013, was \$1,835,597.

### 7. Accrued Liabilities

Accrued liabilities consist of the following:

	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Accrued salaries, bonus, and benefits	\$2,247,842	\$2,123,167
Accrued rent	1,146,175	1,095,641
Accrued warranties	536,098	653,473
Accrued interest	515,009	469,049
Accrued licenses and maintenance fees	322,111	323,901
Other	869,769	696,579
Total accrued liabilities	<u>\$5,637,004</u>	<u>\$5,361,810</u>

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Deferred revenue consists of the following:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Product shipped, revenue deferred	\$1,862,362	\$3,206,641
Customer deposits	418,787	558,227
Deferred service and license fees	<u>6,430,322</u>	<u>6,215,230</u>
	8,711,471	9,980,098
Less: Long-term deferred revenue	<u>(334,664)</u>	<u>(477,159)</u>
Total current deferred revenue	<u>\$8,376,807</u>	<u>\$9,502,939</u>

**9. Long-Term Debt and Credit Facilities**

Debt outstanding consists of the following:

	<u>June 30, 2013</u>		<u>December 31, 2012</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Revolving line of credit, due August 2013	\$ 6,542,094	\$ 6,549,461	\$ 7,253,017	\$ 7,277,084
Term note, due December 2013	2,000,000	2,000,000	4,000,000	4,000,000
Healthcare Royalty Partners debt	18,589,302	18,589,302	16,248,075	16,248,075
Subordinated convertible debentures	<u>2,739,084</u>	<u>2,739,084</u>	<u>1,588,134</u>	<u>1,588,134</u>
Total debt	29,870,480	29,877,847	29,089,226	29,113,293
Less current maturities	<u>(12,061,454)</u>	<u>(12,068,821)</u>	<u>(12,264,490)</u>	<u>(12,288,557)</u>
Total long term debt	<u>\$ 17,809,026</u>	<u>\$ 17,809,026</u>	<u>\$ 16,824,736</u>	<u>\$ 16,824,736</u>

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### ***Revolving line of credit***

In September 2011, the Company amended its agreement with its primary lender. The amendment 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 Healthcare Royalty Partners II, L.P. ("Healthcare Royalty Partners"), formerly "Cowen Healthcare Royalty Partners II, L.P.", 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. The Company also received from stockholders, who at the time were affiliates of two members of our board of directors (the "Lenders") and were considered to be related parties, an extension of their commitment to provide \$10 million in loan guarantees until April 30, 2012. As a result of this extension, the Company issued the Lenders warrants to purchase 75,735 shares of common stock at \$6.60 per share.

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. The Company and the Lenders also agreed to amend their agreement to extend the \$10 million loan guarantee through May 15, 2012. The Company granted warrants to purchase an aggregate of 60,976 shares of common stock in exchange for the extension of the guarantee.

On May 10, 2012, upon closing of financing transactions for gross proceeds of \$18.5 million, the Company entered into the Third Loan Modification Agreement with its primary lender. The amendment extended the revolving credit facility maturity to March 31, 2013 and revised the financial covenants. Additionally, the revolving line of credit was decreased from \$20 million to \$13 million. The reduction was as a result of the pay down of \$7 million of the guarantees provided by the Lenders.

On March 29, 2013, 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, 2013 to June 30, 2013. The Company and the Lenders also agreed to extend until June 30, 2013 the \$3 million guarantee. As a result of this extension, the Company issued the Lenders warrants to purchase 113,636 shares of common stock at \$1.98 per share.

On June 28, 2013, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from June 30, 2013 to July 31, 2013, and decreased the amount of available advances from \$13 million to \$6 million. In addition, the Bank waived the testing of the tangible net worth and liquidity ratio financial covenants under the Amended Loan Agreement for the period ended June 30, 2013. The Company and the Lenders also agreed to extend until July 31, 2013 the \$3 million guarantee. As a result of this extension, the Company issued the Lenders warrants to purchase 48,387 shares of common stock at \$1.55 per share.

On July 31, 2013, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from July 31, 2013 to August 31, 2013. In addition, the Bank waived the testing of the liquidity ratio financial covenant under the Amended Loan Agreement for the period ended July 31, 2013. The Company and the Lenders also agreed to extend until August 31, 2013 the \$3 million guarantee. As a result of this extension, the Company issued the Lenders warrants to purchase 14,313 shares of common stock at \$5.24 per share.

As of June 30, 2013, the Company had \$6.5 million outstanding under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one week in arrears. As of June 30, 2013, the Company had a borrowing capacity of \$6.5 million based on the Company's collateralized assets, including amounts already drawn. As such, the Company had no remaining ability to borrow under the revolving line of credit at June 30, 2013.

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.

### ***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 11,111 shares of common stock. The warrants are exercisable at \$36.00 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.

### ***Healthcare Royalty Partners Debt***

In November 2011, the Company entered into a loan agreement with Healthcare Royalty Partners. Under the agreement the Company borrowed from Healthcare Royalty Partners \$15 million. The Company was permitted to 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. On August 8, 2012, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* system sales for the nine months ended June 30, 2012. On January 31, 2013, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* system sales for the twelve months ended December 31, 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, Healthcare Royalty Partners 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 Loan Agreement described above.

### ***Subordinated Convertible Debentures***

In May 2012, the Company entered into a securities purchase agreement with certain institutional investors whereby the Company agreed to sell an aggregate of approximately \$8.5 million in aggregate principal amount of unsecured, subordinated, convertible debentures (the "Debentures"), which became convertible into shares of the Company's common stock at a conversion price of \$3.361 per share (or approximately 2.5 million shares in the aggregate), on July 10, 2012, the date that the Company received shareholder approval for the transaction. The purchasers of the Debentures also received six-year warrants to purchase an aggregate of approximately 2.5 million shares of the Company's common stock at an exercise price of \$3.361 per share. The Debentures bear interest at 8% per year and mature on May 7, 2014. In addition, the Company has the ability to issue shares of its common stock in lieu of cash interest payments under certain circumstances, and intends to do so at such time as the Company has registered the shares for resale.

The Company recorded the Debentures on the balance sheet net of the debt discount. The debt discount of \$7.5 million is due to warrants issued in conjunction with the Debentures and the debt conversion features. Upon issuance of the Debentures, the fair value of the warrants and derivative liability were \$4.1 million and \$3.5 million, respectively. The debt discount will be amortized over the life of the loan using the effective interest method and the warrants and derivative liability will be recorded at fair value on each reporting period. Refer to Note 11 for additional discussion of the fair value of the warrants and conversion features.

Refer to Note 14 for discussion of subsequent events.

## **10. Stockholders' Equity**

### ***Reverse Stock Split***

On July 10, 2012, the Company filed a Certificate of Amendment to our Amended and Restated Certificate of Incorporation to implement a one-for-ten reverse split of our common stock (the "Reverse Stock Split"). The ratio for the Reverse Stock Split was determined by our Board of Directors pursuant to the approval of the stockholders at the Company's special meeting of stockholders held on July 10, 2012, authorizing the Board to effect a reverse stock split within a range of one-for-four to one-for-ten shares of the Company's common stock. The Reverse Stock Split was effective as of July 10, 2012, and the Company's common stock began trading on the NASDAQ Global Market on a post-split basis on July 11, 2012.

As a result of the Reverse Stock Split, each ten shares of the Company's issued and outstanding common stock were automatically combined and converted into one issued and outstanding share of common stock. The Reverse Stock Split affected all issued and outstanding shares of the Company's common stock, as well as common stock underlying stock options, stock appreciation rights, restricted stock, restricted stock units, warrants and convertible debentures outstanding immediately prior to the effectiveness of the Reverse Stock Split. The Reverse Stock Split reduced the number of shares of the Company's common stock outstanding from approximately 78 million to 7.8 million at the time of the Reverse Stock Split. In addition, the Amendment increased the number of authorized shares of the Company's common stock from 100 million to 300 million. The Reverse Stock Split did not alter the par value of common stock, which remained \$0.001 per share, or modify any voting rights or other terms of the Company's common stock. Unless otherwise indicated, all information set forth herein gives effect to such Reverse Stock Split.

### ***Public Offerings of Common Stock***

In May 2012, the Company entered into a Stock and Warrant Purchase Agreement with certain institutional investors whereby it agreed to sell an aggregate of approximately 2.17 million shares of the Company's common stock (the "PIPE Common Stock") at a price of \$3.361 per share, together with six-year warrants at a price of \$1.25 per share to purchase an aggregate of approximately 2.17 million shares of common stock having an exercise price of \$3.361 per share (the "PIPE Warrants"). Each purchaser received a PIPE Warrant to purchase one share of common stock for every share of PIPE Common Stock purchased.

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Net proceeds from the sale of the securities were approximately \$9.1 million, after placement agent fees and other offering expenses. The Company used the funds to repay \$7 million of the revolving credit facility guaranteed by the Lenders and plans to use the balance for working capital and general corporate purposes.

### **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. In August 2012, the Board of Directors adopted a stock incentive plan (the 2012 Stock Incentive Plan) which was subsequently approved by the Company's stockholders. This plan replaces the 2002 Stock Incentive Plan which expired on March 25, 2012. At June 30, 2013, the Board of Directors had 992,650 remaining shares of the Company's common stock to provide for current and future grants under its various equity plans.

At June 30, 2013, 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 \$2.1 million, net of estimated forfeitures of approximately \$2.0 million. This cost will be amortized over a period of up to four years 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 six month period ended June 30, 2013 is as follows:

	<u>Number of Options/SARs</u>	<u>Range of Exercise Price</u>	<u>Weighted Average Exercise Price per Share</u>
Outstanding, December 31, 2012	373,899	\$1.63 - \$116.40	\$ 43.90
Granted	—	\$0.00 - \$0.00	—
Exercised	—	\$0.00 - \$0.00	—
Forfeited	(93,247)	\$8.10 - \$68.60	\$ 39.94
Outstanding, June 30, 2013	<u>280,652</u>	<u>\$1.63 - \$116.40</u>	<u>\$ 45.22</u>

A summary of the restricted share grant activity for the six month period ended June 30, 2013 is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value per Share</u>
Outstanding, December 31, 2012	68,543	\$ 20.62
Granted	—	—
Vested	(33)	\$ 33.80
Forfeited	(36,270)	\$ 18.56
Outstanding, June 30, 2013	<u>32,240</u>	<u>\$ 22.92</u>

A summary of the restricted shares outstanding as of June 30, 2013 is as follows:

	<u>Number of Shares</u>
Time based restricted shares	7,700
Performance based restricted shares	24,540
Outstanding, June 30, 2013	<u>32,240</u>

A summary of the restricted stock unit activity for the six month period ended June 30, 2013 is as follows:

	<u>Number of Restricted Shares Units</u>	<u>Weighted Average Grant Date Fair Value per Unit</u>
Outstanding, December 31, 2012	529,312	\$ 2.64
Granted	441,834	\$ 2.20
Vested	(135,347)	\$ 5.00
Forfeited	(173,502)	\$ 2.09
Outstanding, June 30, 2013	<u>662,297</u>	<u>\$ 2.01</u>

**11. 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 three levels of the fair value hierarchy are described below:

- Level 1: Values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Values are generated from model-based techniques that use significant assumptions not observable in the market.

The following table sets forth the Company’s assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. As required by the Fair Value Measurements and Disclosures topic of the Accounting Standards Codification, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets at June 30, 2013:</b>				
Cash equivalents	\$ 21,663	21,633	—	—
Derivative asset	79	—	—	79
Total assets at fair value	<u>\$ 21,742</u>	<u>21,633</u>	<u>—</u>	<u>79</u>
<b>Liabilities at June 30, 2013:</b>				
Warrants issued December 29, 2008	\$ 6,999	—	—	6,999
Warrants issued May 10, 2012	1,360,107	—	—	1,360,107
Derivative liability	101,936	—	—	101,936
Total liabilities at fair value:	<u>\$1,469,042</u>	<u>—</u>	<u>—</u>	<u>1,469,042</u>
<b>Assets at December 31, 2012:</b>				
Cash equivalents	\$ 256,702	256,702	—	—
Derivative asset	1,736	—	—	1,736
Total assets at fair value	<u>\$ 258,438</u>	<u>256,702</u>	<u>—</u>	<u>1,736</u>
<b>Liabilities at December 31, 2012:</b>				
Warrants issued December 29, 2008	\$ 71,581	—	—	71,581
Warrants issued May 10, 2012	2,347,902	—	—	2,347,902
Derivative liability	548,865	—	—	548,865
Total liabilities at fair value:	<u>\$2,968,348</u>	<u>—</u>	<u>—</u>	<u>2,968,348</u>



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### *Level 1*

The Company's financial assets consist of cash equivalents invested in money market funds in the amount of \$21,663 and \$256,702 at June 30, 2013 and December 31, 2012, respectively. These assets are classified as Level 1 as described above and total interest income recorded for these investments was insignificant during both the six month periods ended June 30, 2013 and June 30, 2012. There were no transfers in or out of Level 1 during the period ended June 30, 2013.

### *Level 2*

The Company does not have any financial assets or liabilities classified as Level 2.

### *Level 3*

In conjunction with its December 29, 2008 registered direct offering, the Company issued warrants to purchase 179,241 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 \$6,999 were measured at fair value on a recurring basis as of June 30, 2013 and were valued using Level 3 valuation inputs. A Black-Scholes model was used to value the Company's warrants at June 30, 2013 using the following assumptions: 1) dividend yield of 0%; 2) volatility of 111.01%; 3) risk-free interest rate of 0.66%; and 4) expected life of one year.

In the Company's May 2012 financing transaction, the Company issued subordinated convertible debentures and warrants. The optional conversion feature of the subordinated convertible debentures is classified as a derivative liability within "Warrants and debt conversion features" on the Company's balance sheet. The warrants issued in conjunction with the Debentures and PIPE are also considered a liability. Due to the provisions included in the warrant agreements, the warrants do not meet the exemptions for equity classification and as such, the Company accounts for these warrants as derivative instruments. The warrants and derivative liability are periodically remeasured with any changes in value recognized in "Other income (expense)" in the Statement of Operations.

Per the terms of the Debentures agreement, the Company had the ability to require each holder to convert up to 50% of the Debentures if the common stock closed above \$15.00, or 100% of the Debentures if the common stock closed above \$20.00 (in each case, as adjusted for stock splits, recapitalizations and similar events) during a 20 consecutive trading day period and the resale registration statement had been declared effective by the SEC and was available for the issuance of the common stock upon conversion of the Debentures. In the event of any forced conversion by the Company, the minimum amount that the Company could force the holders to convert was \$2.5 million of Debentures in the aggregate. This mandatory redemption clause is classified as a derivative asset within "Prepaid and other current assets" on the Company's balance sheet. The derivative asset is periodically remeasured with any changes in value recognized in "Other income (expense)" in the Statement of Operations. Refer to Note 14 for discussion of subsequent events.

In accordance with general accounting principles for fair value measurement, the Company's warrants, derivative liability, and derivative asset were measured at fair value on a recurring basis as of June 30, 2013 and were valued using Level 3 valuation inputs. A Monte-Carlo simulation was used to value the derivative asset and liabilities upon issuance on May 10, 2012 using the following assumptions: 1) volatility of 80%; 2) risk-free interest rate of 1.035%; and 3) a closing stock price of \$3.413. The derivative asset and liabilities were revalued as of June 30, 2013 using the following assumptions: 1) volatility of 95%; 2) risk-free interest rate of 1.357%; and 3) a closing stock price of \$1.55.

The significant unobservable input used in the fair value measurement of the Company's warrants, derivative liability, and derivative asset is volatility. Significant increases (decreases) in the volatility in isolation would result in a significantly higher (lower) asset and liability fair value measurements.

The following table sets forth a summary of changes in the fair value of the Company's Level 3 financial asset and liabilities for the six month period ended June 30, 2013:

	<u>Derivative Asset</u>	<u>Total Assets</u>	<u>Warrants issued December 29, 2008</u>	<u>Warrants issued May 2012</u>	<u>Derivative Liability</u>	<u>Total Liabilities</u>
Balance at beginning of period	\$ 1,736	\$ 1,736	\$ 71,581	\$ 2,347,902	\$ 548,865	\$ 2,968,348
Settlements	—	—	—	—	(1,631)	(\$ 1,631)
Revaluation	(1,657)	(1,657)	(64,582)	(987,795)	(445,298)	(1,497,675)
Balance at end of period	<u>\$ 79</u>	<u>\$ 79</u>	<u>\$ 6,999</u>	<u>\$ 1,360,107</u>	<u>\$ 101,936</u>	<u>\$ 1,469,042</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*, *Odyssey*, and *Vdrive* 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:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Warranty accrual, beginning of the fiscal period	\$ 653,473	\$ 691,832
Warranty expense incurred	25,984	650,367
Payments made	(143,359)	(688,726)
Warranty accrual, end of the fiscal period	<u>\$ 536,098</u>	<u>\$ 653,473</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 2012, the Company entered into a letter of credit to support a commitment in the amount of approximately \$0.1 million. This letter of credit is valid through 2015.

## 14. Subsequent Events

On August 7, 2013, holders of all of the Company's convertible subordinated notes exercised outstanding warrants to purchase an aggregate of 2.5 million shares of common stock for cash at an exercise price of \$3.361 per share and converted a portion of their notes into shares of common stock. In a separate transaction, the holders exchanged the balance of their convertible notes for shares and additional warrants to purchase 2.5 million shares, also having an exercise price of \$3.361 per share. The convertible notes held by these holders were extinguished, and the Company issued shares at a combined rate of \$3.00 per share in these transactions. As a result of these transactions, the Company issued a total of 5.2 million shares of common stock and received an aggregate of \$8.475 million in cash from the warrant exercise. In addition, \$8.1 million of convertible subordinated notes have been retired.

In connection with the exchange, the holders and the Company amended the terms of the original securities purchase agreement under which the notes and warrants were issued to remove certain ongoing covenants. The Company also intends to conduct a rights offering to all existing stockholders, pursuant to which its stockholders may elect to purchase a specified fraction of a share for each share of stock held as of the record date for the offering, at a price of \$3.00 per share. The Company currently anticipates that fraction would not be less than 0.25 per share for each share of common stock held. The Company will register the rights offering with the Securities and Exchange Commission, and as a result, the record date for the rights offering has not been set at this time.

Stereotaxis entered into these transactions in order to help alleviate its immediate liquidity concerns. The Company continues to work on a long-term resolution of these liquidity issues with its financial advisors in order to mitigate the operational and financial risks that it faces.

## 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, 2012. Operating results are not necessarily indicative of results that may occur in future periods. As described in Note 10 to the financial statements, on July 10, 2012, the Company effected a one-for-ten Reverse Stock Split of the Company's common stock. All information set forth in the following discussion and analysis gives effect to such Reverse Stock Split.

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." Forward-looking statements discuss matters that are not historical facts. Forward-looking statements include, but are not limited to, discussions regarding our operating strategy, sales and marketing strategy, regulatory strategy, industry, economic conditions, financial condition, liquidity and capital resources and results of operations. Such statements include, but are not limited to, statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "estimates," "projects," "can," "could," "may," "will," "would," or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not unduly rely on these forward-looking statements, which speak only as of the date on which they were made. They give our expectations regarding the future but are not guarantees. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

### Overview

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 the *Odyssey Cinema* solution, 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-Sono* ICE catheter manipulator has received U.S. clearance, and the *V-Loop* circular catheter manipulator is currently in clinical trials in order to obtain clearance by the U.S. Food and Drug Administration.

Since our inception, we have generated significant losses. As of June 30, 2013 we had incurred cumulative net losses of approximately \$393 million. In May 2011, the Company introduced the *Niobe* ES system, which is the latest generation of the *Niobe* Robotic Magnetic Navigation System and will replace the *Niobe* II system going forward. As of June 30, 2013, the Company had an installed base of 88 *Niobe* ES systems and has received positive feedback from the physicians at these sites. During the third quarter of 2011, the Company implemented a wide ranging plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. During the year ended December 31, 2012, the Company reduced operating expenses by approximately \$19 million or 31% over the prior year. We expect to incur additional losses throughout the remainder of 2013 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund additional sales and marketing initiatives.

## 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, 2012.

### 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 June 30, 2013 and 2012

**Revenue.** Revenue decreased from \$10.5 million for the three months ended June 30, 2012 to \$9.7 million for the three months ended June 30, 2013, a decrease of approximately 7%. Revenue from the sale of systems decreased from \$3.9 million to \$3.3 million, a decrease of approximately 14%. We recognized revenue on two *Niobe* systems, a total of \$0.2 million for *Niobe* ES upgrades, and a total of \$1.1 million for *Odyssey* and *Odyssey Cinema* systems during the 2013 period, versus two *Niobe* systems, a total of \$0.7 million for *Niobe* ES upgrades, a total of \$1.1 million for *Odyssey* and *Odyssey Cinema* systems during the 2012 period. Revenue from sales of disposable interventional devices, service and accessories decreased to \$6.4 million for the three months ended June 30, 2013 from \$6.6 million for the three months ended June 30, 2012, a decrease of approximately 4%. The decrease was attributable to lower disposable sales volume.

*Cost of Revenue.* Cost of revenue decreased from \$3.3 million for the three months ended June 30, 2012 to \$2.5 million for the three months ended June 30, 2013, a decrease of approximately 24%. Cost of revenue for systems sold decreased from \$2.2 million for the three months ended June 30, 2012 to \$1.6 million for the three months ended June 30, 2013, a decrease of approximately 26%. This decrease was primarily due to decreased system sales. Cost of revenue for disposables, service and accessories decreased from \$1.1 million for the three months ended June 30, 2012 to \$0.9 million for the three months ended June 30, 2013, a decrease of approximately 20%. The decrease was primarily due to decreased disposable sales. As a percentage of our total revenue, overall gross margin increased to 75% for the three months ended June 30, 2013 from 69% for the three months ended June 30, 2012 due to improved margins on system sales. Gross margin for systems was 52% for the three months ended June 30, 2013 compared to 44% for the three months ended June 30, 2012. The increase was primarily related to higher gross margin on *Odyssey* and *Odyssey Cinema* systems in the current year. Gross margin for disposables, service and accessories was 86% for the current quarter compared to 84% for the three months ended June 30, 2012. The increase is due to higher margins on service in the current year period due to fewer ES upgrades provided in exchange for extended service contracts.

*Research and Development Expenses.* Research and development expenses decreased from \$2.2 million for the three months ended June 30, 2012 to \$1.5 million for the three months ended June 30, 2013, a decrease of approximately 32%. The decrease is primarily due to reduced headcount expenses and a reduction in consulting, contract research, and materials expenses as part of the Company's efforts to reduce operating expenses.

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*Sales and Marketing Expenses.* Sales and marketing expenses decreased from \$6.2 million for the three months ended June 30, 2012 to \$4.3 million for the three months ended June 30, 2013, a decrease of approximately 32%. The decrease was due to reduced headcount expenses and a reduction in marketing 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 \$3.3 million from \$3.5 million for the three months ended June 30, 2013 and 2012, respectively, a decrease of approximately 6%. The decrease was primarily due to reduced headcount expenses and foreign currency effects, partially offset by increases in consulting expenses.

*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 \$2.1 million for the three months ended June 30, 2013 from \$1.8 million for the three months ended June 30, 2012, due primarily to noncash amortization of the discount on the subordinated convertible debentures.

### *Comparison of the Six Months Ended June 30, 2013 and 2012*

*Revenue.* Revenue decreased from \$22.8 million for the six months ended June 30, 2012 to \$18.1 million for the six months ended June 30, 2013, a decrease of approximately 20%. Revenue from the sale of systems decreased from \$9.0 million to \$5.6 million, a decrease of approximately 39%. We recognized revenue on three *Niobe* ES, a total of \$0.7 million for *Niobe* ES upgrades, a total of \$1.7 million for *Odyssey* and *Odyssey Cinema* systems, and a total of \$0.1 million for *Vdrive* systems during the 2013 period, versus four *Niobe* systems, a total of \$2.1 million for *Niobe* ES upgrades, a total of \$3.1 million for *Odyssey* and *Odyssey Cinema* systems, and a total of \$0.3 million for *Vdrive* systems during the 2012 period. Revenue from sales of disposable interventional devices, service and accessories decreased to \$12.6 million for the six months ended June 30, 2013 from \$13.8 million for the six months ended June 30, 2012, a decrease of approximately 8%. The decrease was attributable to lower disposable sales volume.

*Cost of Revenue.* Cost of revenue decreased from \$7.0 million for the six months ended June 30, 2012 to \$4.7 million for the six months ended June 30, 2013, a decrease of approximately 34%. As a percentage of our total revenue, overall gross margin increased to 74% for the six months ended June 30, 2013 compared to 69% during the same six month period of the prior year, due to a shift in mix from system revenue to disposable, service and accessory revenue. Cost of revenue for systems sold decreased from \$4.5 million for the six months ended June 30, 2012 to \$2.8 million for the six months ended June 30, 2013, a decrease of approximately 38%, primarily due to decreased system sales across all product lines. Gross margin for systems was 50% for both the six months ended June 30, 2013 and the six months ended June 30, 2012. Cost of revenue for disposables, service and accessories decreased to \$1.9 million during the 2013 period from \$2.5 million during the 2012 period, resulting in an increase in gross margin to 85% from 82% between these periods. The increase is due to higher margins on service in the current year period due to fewer ES upgrades provided in exchange for extended service contracts.

*Research and Development Expenses.* Research and development expenses decreased from \$5.0 million for the six months ended June 30, 2012 to \$3.0 million for the six months ended June 30, 2013, a decrease of approximately 40%. The decrease is primarily due to reduced headcount expenses and a reduction in consulting, contract research, and materials expenses as part of the Company's efforts to reduce operating expenses.

*Sales and Marketing Expenses.* Sales and marketing expenses decreased from \$12.2 million for the six months ended June 30, 2012 to \$9.1 million for the six months ended June 30, 2013, a decrease of approximately 25%. The decrease was due to reduced headcount and travel 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 \$6.7 million from \$7.3 million for the six months ended June 30, 2013 and 2012, respectively, a decrease of approximately 9%. The decrease was primarily due to reduced headcount, partially offset by increased consulting expenses.

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

*Interest Expense.* Interest expense increased to \$4.1 million for the six months ended June 30, 2013 from \$3.3 million for the six months ended June 30, 2012, due to the Healthcare Royalty Partners II, L.P. ("Healthcare Royalty Partners"), formerly "Cowen Healthcare Royalty Partners II, L.P.", financing in November 2011 and amortization of warrants issued in conjunction with the renewal of the revolving line of credit. Interest expense also includes the amortization of the debt discount on the subordinated convertible debentures.



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### **Liquidity and Capital Resources**

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents. At June 30, 2013 we had \$4.1 million of cash and equivalents. We had a working capital deficit of approximately \$11.0 and \$5.7 million as of June 30, 2013 and December 31, 2012, respectively. The decrease in working capital is due principally to the \$7.9 million net loss for the first six months of 2013.

The following table summarizes our cash flow by operating, investing and financing activities for the six months ended June 30, 2013 and 2012 (in thousands):

	Six Months Ended June 30,	
	2013	2012
Cash flow used in operating activities	\$ (3,294)	\$ (8,413)
Cash flow used in investing activities	0	(113)
Cash flow provided by financing activities	(370)	6,691

*Net cash used in operating activities.* We used approximately \$3.3 million and \$8.4 million of cash for operating activities during the six months ended June 30, 2013 and 2012, respectively. This decrease was primarily driven by a decrease in the net loss, adjusted for non-cash items such as stock-based compensation, amortization of the convertible debt discount and mark-to-market entries on warrants and convertible debt. In addition, changes in working capital generated approximately \$3.0 million in cash driven by changes in inventories, prepaid expenses and other current assets, and accounts payable.

*Net cash used in investing activities.* There were no purchases of equipment for the six month period ended June 30, 2013 compared to \$0.1 million of purchases for the six month period ended June 30, 2012.

*Net cash provided by financing activities.* We used approximately \$0.4 million of cash for the six month period ended June 30, 2013 compared to the \$6.7 million generated for the six month period ended June 30, 2012. This decrease in cash generated was primarily driven by the prior year activity, which included cash generated through the PIPE offering and issuance of convertible debt, partially offset by reduced borrowings against the line of credit.

We expect to have negative cash flow from operations throughout 2013. 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.

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

#### *Borrowing facilities*

As of June 30, 2013, our borrowing facilities were comprised of subordinated convertible debentures, a revolving line of credit and a term note maintained with our primary lender, Silicon Valley Bank, as well as a term note maintained with Healthcare Royalty Partners.

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 September 2011, the Company amended its agreement with its primary lender. The amendment 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 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. The Company also received from stockholders, who at the time were affiliates of two members of our board of directors (the "Lenders") and were considered to be related parties, an extension of their commitment to provide \$10 million in loan guarantees until April 30, 2012. As a result of this extension, the Company issued the Lenders warrants to purchase 75,735 shares of common stock at \$6.60 per share.

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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. The Company and the Lenders also agreed to amend their agreement to extend the \$10 million loan guarantee through May 15, 2012. The Company granted warrants to purchase an aggregate of 60,976 shares of Common Stock in exchange for the extension of the guarantee.

On May 10, 2012, upon closing of financing transactions for gross proceeds of \$18.5 million, the Company entered into the Third Loan Modification Agreement with its primary lender. The amendment extended the revolving credit facility maturity to March 31, 2013 and revised the financial covenants. Additionally, the revolving line of credit was decreased from \$20 million to \$13 million. The reduction was as a result of the pay down of \$7 million of the guarantees provided by the Lenders.

On March 29, 2013, 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, 2013 to June 30, 2013. The Company and the Lenders also agreed to extend until June 30, 2013 the \$3 million guarantee. As a result of this extension, the Company issued the Lenders warrants to purchase 113,636 shares of common stock at \$1.98 per share.

On June 28, 2013, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from June 30, 2013 to July 31, 2013, and decreased the amount of available advances from \$13 million to \$6 million. In addition, the Bank waived the testing of the tangible net worth and liquidity ratio financial covenants under the Amended Loan Agreement for the period ended June 30, 2013. The Company and the Lenders also agreed to extend until July 31, 2013 the \$3 million guarantee. As a result of this extension, the Company issued the Lenders warrants to purchase 48,387 shares of common stock at \$1.55 per share.

On July 31, 2013, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from July 31, 2013 to August 31, 2013. In addition, the Bank waived the testing of the liquidity ratio financial covenant under the Amended Loan Agreement for the period ended July 31, 2013. The Company and the Lenders also agreed to extend until August 31, 2013 the \$3 million guarantee. As a result of this extension, the Company issued the Lenders warrants to purchase 14,313 shares of common stock at \$5.24 per share.

As of June 30, 2013, we had an outstanding balance under our term loan of \$2.0 million. In addition, we had \$6.5 million outstanding under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one week in arrears. As of June 30, 2013, the Company had a borrowing capacity of \$6.5 million based on the Company's collateralized assets, including amounts already drawn. As such, the Company had no remaining ability to borrow under the revolving line of credit at June 30, 2013.

### *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 11,111 shares of common stock. The warrants are exercisable at \$36.00 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.

### *Healthcare Royalty Partners Debt*

In November 2011, we entered into a loan agreement with Healthcare Royalty Partners. Under the agreement the Company borrowed from Healthcare Royalty Partners \$15 million. The Company was permitted to 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. On August 8, 2012, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* system sales for the nine months ended June 30, 2012. On January 31, 2013, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* system sales for the twelve months ended December 31, 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"). 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, Healthcare Royalty Partners 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.

### *Subordinated Convertible Debentures*

In May 2012, the Company entered into a securities purchase agreement with certain institutional investors whereby the Company agreed to sell an aggregate of approximately \$8.5 million in aggregate principal amount of unsecured, subordinated, convertible debentures (the "Debentures"), which became convertible into shares of the Company's common stock at a conversion price of \$3.361 per share (or approximately 2.5 million shares in the aggregate), on July 10, 2012, the date that the Company received shareholder approval for the transaction. The purchasers of the Debentures also received six-year warrants to purchase an aggregate of approximately 2.5 million shares of the Company's common stock at an exercise price of \$3.361 per share. The Debentures bear interest at 8% per year and mature on May 7, 2014. In addition, the Company has the ability to issue shares of its common stock in lieu of cash interest payments under certain circumstances, and intends to do so at such time as the Company has registered the shares for resale.

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The Company recorded the Debentures on the balance sheet net of the debt discount. The debt discount of \$7.5 million is due to warrants issued in conjunction with the Debentures and the debt conversion features. The fair value of the warrants and derivative liability were \$4.1 million and \$3.5 million, respectively. The debt discount will be amortized over the life of the loan using the effective interest method. Refer to Note 11 for additional discussion of the fair value of the warrants and conversion features.

On August 7, 2013, holders of all of the Company's convertible subordinated notes exercised outstanding warrants to purchase an aggregate of 2.5 million shares of common stock for cash at an exercise price of \$3.361 per share and converted a portion of their notes into shares of common stock. In a separate transaction, the holders exchanged the balance of their convertible notes for shares and additional warrants to purchase 2.5 million shares, also having an exercise price of \$3.361 per share. The convertible notes held by these holders were extinguished, and the Company issued shares at a combined rate of \$3.00 per share in these transactions. As a result of these transactions, the Company issued a total of 5.2 million shares of common stock and received an aggregate of \$8.475 million in cash from the warrant exercise. In addition, \$8.1 million of convertible subordinated notes have been retired.

In connection with the exchange, the holders and the Company amended the terms of the original securities purchase agreement under which the notes and warrants were issued to remove certain ongoing covenants. The Company also intends to conduct a rights offering to all existing stockholders, pursuant to which its stockholders may elect to purchase a specified fraction of a share for each share of stock held as of the record date for the offering, at a price of \$3.00 per share. The Company currently anticipates that fraction would not be less than 0.25 per share for each share of common stock held. The Company will register the rights offering with the Securities and Exchange Commission, and as a result, the record date for the rights offering has not been set at this time.

Stereotaxis entered into these transactions in order to help alleviate its immediate liquidity concerns. The Company continues to work on a long-term resolution of these liquidity issues with its financial advisors in order to mitigate the operational and financial risks that it faces.

### *Common Stock*

In May 2012, the Company entered into a Stock and Warrant Purchase Agreement with certain institutional investors whereby it agreed to sell an aggregate of approximately 2.17 million shares of the Company's common stock (the "PIPE Common Stock") at a price of \$3.361 per share, together with six-year warrants at a price of \$1.25 per share to purchase an aggregate of approximately 2.17 million shares of common stock having an exercise price of \$3.361 per share (the "PIPE Warrants"). Each purchaser received a PIPE Warrant to purchase one share of common stock for every share of PIPE Common Stock purchased.

As described above, on July 10, 2012, the Company effected a one-for-ten Reverse Stock Split of the Company's common stock. All figures within this document have been adjusted to reflect this reverse stock split.

Net proceeds from the sale of the securities were approximately \$9.1 million, after placement agent fees and other offering expenses. The Company used the funds to repay \$7 million of the revolving credit facility guaranteed by the Lenders and plans to use the balance for working capital and general corporate purposes.

### **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 have arisen 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 operations 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, accounts payable and other asset and liability balances denominated in non-US dollar currencies. Our international operations are subject to risks typical of international operations, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Future fluctuations in the value of these currencies may affect the price competitiveness of our products. In addition, because we have a relatively long installation cycle for our systems, we will be subject to risk of currency fluctuations between the time we execute a purchase order and the time we deliver the system and collect payments under the order, which could adversely affect our operating margins. As of June 30, 2013 we have not hedged exposures in foreign currencies or entered into any other derivative instruments.

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For the six months ended June 30, 2013, sales denominated in foreign currencies were approximately 19% 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 six months ended June 30, 2013, expenses denominated in foreign currencies were approximately 15% of our total expenses and as such, our operating expenses would have decreased by approximately \$0.3 million if the U.S. dollar exchange rate used would have strengthened by 10%. In addition, we have assets and liabilities denominated in foreign currencies. A 10% strengthening of the U.S. dollar exchange rate against all currencies with which we have exposure at June 30, 2013 would have resulted in less than a \$0.1 million decrease in the carrying amounts of those net assets.

### ***Interest Rate Risk***

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

We have exposure to market risk related to any investments we might hold. Market liquidity issues might make it impossible for the Company to liquidate its holdings or require that the Company sell the securities at a substantial loss. As of June 30, 2013, 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 issuances of our outstanding debt are subject to minimum interest rates ranging from 5.75% to 7.0%, a hypothetical increase in interest rates of 100 basis points would have resulted in less than a \$0.1 million decrease in interest expense for the quarter ended June 30, 2013.

### ***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 Interim 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 Interim 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 Interim 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.

## **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, 2012, on October 7, 2011, a purported securities class action was filed against the Company and two of the Company's past executive officers 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. On May 18, 2012, the Company filed a motion to dismiss the Amended Complaint. On July 24, 2012, Lead Plaintiff filed its response to the motion to

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dismiss, and on August 30, 2012, the Company filed its reply brief in support of the motion to dismiss. 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, 2012, 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 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

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

**We have recently received a notice from Nasdaq advising that we do not meet the continued listing standards of the Nasdaq Global Market. If we are unable to maintain a listing on a national securities exchange, it could negatively impact the price and liquidity of our common stock and our ability to access the capital markets, and could cause us to be in default under various loan documents.**

Our common stock is currently listed on the Nasdaq Global Market. In order to maintain that listing, we must satisfy minimum financial and other requirements. On January 20, 2012, we received notice from the Nasdaq Listing Qualifications Department that our common stock had not met the \$1.00 per share minimum bid price requirement for 30 consecutive business days and that, if we were unable to demonstrate compliance with this requirement during the applicable grace periods, our common stock would be subject to delisting after that time. Because the closing bid price of our common stock on the Nasdaq Global Market had been below \$1.00 per share each trading day since December 6, 2011, through July 10, 2012, we implemented the Reverse Stock Split of one-for-ten shares on July 10, 2012, following shareholder approval of that action in order to put our stock in compliance with the minimum bid price requirement. On July 25, 2012, we received notice that we regained compliance with the minimum bid price requirement. In addition, on June 25, 2012, Nasdaq notified us that we did not comply with the rule regarding market value of publicly held shares. On January 9, 2013, we received notification from Nasdaq that we had regained compliance with the minimum market value of publicly held shares requirement.

On March 20, 2013, we received a notification from the Nasdaq Listing Qualifications Department that we are not in compliance with the \$50.0 million in total assets and total revenues requirement for our most recently completed fiscal year or for two of the last three most recently completed fiscal years, as required by Nasdaq Listing Rule 5450(b)(3)(A). In addition, the Nasdaq letter stated that we do not comply with an alternative requirement of Listing Rule 5450(b) for continued listing on the Nasdaq Global Market because our stockholders' equity is less than \$10.0 million and the market value of our listed securities is less than \$50.0 million. In the notice, Nasdaq stated that we may provide a plan to regain compliance with the continued listing requirements of the Nasdaq Global Market by May 6, 2013. We submitted a compliance plan with the Nasdaq Listing Qualifications Staff ("Staff") on May 6, 2013, and on June 18, 2013, the Staff notified the Company that the plan was denied. The Company submitted a timely request for a hearing before the Nasdaq Listing Qualifications Panel ("Panel").

On July 25, 2013, Company representatives appeared before the Panel to request a transfer from the Nasdaq Global Market to the Capital Market and to present a plan to achieve compliance with the continued listing requirements for the Nasdaq Capital Market. If the Panel decides to continue the Company's listing on the Nasdaq Capital Market, the Panel has the discretion to grant the Company a period of time through no later than December 16, 2013, to achieve compliance with applicable listing requirements. The Company does not have the results of the hearing at this time, but intends to continue to pursue its plans to achieve compliance with Nasdaq Capital Market criteria and to report to the Panel on its progress no later than August 15, 2013, as requested by the Panel.

There is no assurance that the Panel will grant our request for a transfer to the Nasdaq Capital Market pursuant to our compliance plan. Even if we are granted additional time to achieve compliance with the Nasdaq Capital Market listing standards, there can be no assurance that we will be able to evidence compliance by the deadline established by the Panel. If the Panel does not accept our compliance plan, or if it accepts our compliance plan and we are not able to achieve compliance by the established deadline, then Nasdaq would issue a delisting letter. We would at that point be afforded the right to appeal the Panel determination to the Nasdaq Listing and Hearing Review Council. However, the delisting action would not be stayed while the appeal is pending.

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In addition, on April 17, 2013, Nasdaq notified us that we no longer comply with the market value of publicly held shares requirement for continued listing on the Nasdaq Global Market, as we did not maintain a market value of publicly held shares of at least \$15 million for the 30 consecutive business days prior to the date of the letter. In accordance with applicable Nasdaq rules, we have been provided 180 calendar days, or until October 14, 2013, to regain compliance with that rule. If the Panel permits us to transfer to the Nasdaq Capital Market as described above, the \$15 million market value of publicly held shares requirement would no longer apply to the Company. The market value of publicly held shares requirement applicable to the Nasdaq Capital Market is \$1.0 million.

If our common stock is delisted from the Nasdaq Stock Market, we anticipate that our common stock will be immediately eligible for quotation on the OTCQB Market. Any delisting could adversely affect the market liquidity of our common stock, adversely affect our ability to obtain financing for the continuation of our operations and harm our business. Moreover, if we are not listed on an “eligible market,” we would be in breach of the terms of the transaction documents related to the warrants granted on August 8, 2013 to certain holders in exchange for a portion of our convertible debt, and we would be subject to potential liability for damages and other remedies. In addition, receipt of a deficiency notice from Nasdaq with respect to our ongoing compliance with the applicable listing standards could also result in other negative implications, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest and fewer business development opportunities. Any of such developments as a result of the foregoing could impair the value of your investment.

Additional Risk Factors are discussed in our Annual Report on Form 10-K for the year ended December 31, 2012.

### **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



**EXHIBIT INDEX**

<u>Number</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-Q (file No. 000-50884) for the fiscal quarter ended September 30, 2004.
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (File No. 000-50884) filed on July 10, 2012.
3.3	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.
10.1	Consulting Agreement by and between the Company and Michael Kaminski dated April 12, 2013, incorporated by reference to Exhibit 99.1 of Registrant's Current Report on Form 8-K/A (File No. 000-50884) filed on April 17, 2013.
10.2	Form of Retention Agreement dated April 23, 2013, incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K (File No. 000-50884) filed on April 26, 2013.
10.3	Sixth Loan Modification and Waiver Agreement (Domestic), dated June 28, 2013, by and between Silicon Valley Bank, the Company, and Stereotaxis International, Inc. incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K (File No. 000-50884) filed on July 1, 2013.
10.4	Export-Import Bank Fifth Loan Modification Agreement, dated June 28, 2013, by and between Silicon Valley Bank, the Company and Stereotaxis International, Inc. incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K (File No. 000-50884) filed on July 1, 2013.
10.5	Eighth Amendment to Note and Warrant Purchase Agreement, dated June 28, 2013, among affiliated entities of Sanderling Venture Partners, Alafi Capital Company and the Company, incorporated by reference to Exhibit 10.3 of Registrant's Current Report on Form 8-K (File No. 000-50884) filed on July 1, 2013.
4.1	Form of Warrant Issued Pursuant to that Certain Eighth Amendment to Note and Warrant Purchase Agreement dated June 28, 2013, among affiliated entities of Sanderling Venture Partners, Alafi Capital Company and the Company, filed herewith.
31.1	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
31.2	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).
32.1	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
32.2	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.



## Form of Further 2013 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: June [—], 2013

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 June [—], 2018 (the "Expiration Date"), [ ]<sup>1</sup> shares ("Warrant Shares") of Common Stock, \$0.001 par value ("Common Stock"), of the Company, at an exercise price per share equal to \$[—] (the exercise price in effect from time to time hereafter being herein called the "Warrant Price"). 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, the Fourth Amendment to Note and Warrant Purchase Agreement, dated as of March 30, 2012, the Fifth Amendment to Note and Warrant Purchase Agreement, dated as of May 1, 2012, the Sixth Amendment to Note and Warrant Purchase Agreement, dated as of May 7, 2012, the Seventh Amendment to Note and

<sup>1</sup> For each Lender, insert Committed Funds x 2.5%/ Extension Exercise Price.

Warrant Purchase Agreement dated as of March 29, 2013, and the Eighth Amendment (the "Eight Amendment") of even date herewith (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. Registration. The Company shall maintain books for the transfer and registration of the Warrant. Upon the initial issuance of the Warrant, the Company shall issue and register the Warrant in the name of the Warrantholder.

2. Transfers. As provided herein, this Warrant may be transferred only pursuant to a registration statement filed under the Securities Act of 1933, as amended (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 Warrantholder or holder shall include any such transferee.

3. Exercise of Warrant. The Warrantholder may exercise this Warrant to purchase the Warrant Shares, in whole or in part, at any time and from time to time on and after the 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 Warrantholder may, at its election exercised in its sole discretion, exercise this Warrant and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Warrant Price for the Warrant Shares specified in the Exercise Agreement, elect instead to receive upon such exercise the “Net Number” of shares of Common Stock determined according to the following formula (a “Cashless Exercise”):

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

For purposes of the foregoing formula:

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

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

9. 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 9 shall become effective at the close of business on the date the subdivision or combination becomes effective.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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 15.

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 15.

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.

16. 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 Eighth Amendment.

17. Successors. Subject to the restrictions on transfer described in Section 20 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.

18. 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.

19. 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.

20. 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.

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

**STEREOTAXIS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**STEREOTAXIS, INC.  
WARRANT EXERCISE FORM**

Stereotaxis, Inc.

4320 Forest Park Avenue, Suite 100

St. Louis, Missouri 63108

Fax: (314) 678-6110

Attention: Chief Financial Officer

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

Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

Dated: \_\_\_\_\_  
Signature: \_\_\_\_\_  
Print Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



## Certification of Principal Executive Officer

I, William C. Mills III, certify that:

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

Date: August 14, 2013

/s/ William C. Mills III

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William C. Mills III  
Interim Chief Executive Officer  
Stereotaxis, Inc.  
(Principal Executive Officer)

## Certification of Principal Financial Officer

I, Martin C. Stammer, certify that:

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

Date: August 14, 2013

/s/ Martin C. Stammer

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Martin C. Stammer  
Chief Financial Officer  
Stereotaxis, Inc.  
(Principal Financial Officer)

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William C. Mills III, Interim Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: August 14, 2013

/s/ William C. Mills III  
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William C. Mills III  
Interim Chief Executive Officer  
Stereotaxis, Inc.

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin C. Stammer, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: August 14, 2013

/s/ Martin C. Stammer

Martin C. Stammer  
Chief Financial Officer  
Stereotaxis, Inc.