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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

☐ **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: 001-36159

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

Delaware **(State of Incorporation)**	**94-3120386** **(I.R.S. employer identification no.)**
4320 Forest Park Avenue Suite 100 **St. Louis, Missouri** **(Address of principal executive offices)**	**63108** **(Zip Code)**

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

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

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

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

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

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

The number of outstanding shares of the registrant's common stock on April 15, 2014 was 19,435,325.

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STEREOTAXIS, INC.
BALANCE SHEETS

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 11,301,844	$ 13,775,130
Accounts receivable, net of allowance of $377,452 and $383,077 in 2014 and 2013, respectively	8,347,212	7,558,152
Inventories	5,573,124	4,879,039
Prepaid expenses and other current assets	1,929,076	1,945,206
Total current assets	27,151,256	28,157,527
Property and equipment, net	1,047,926	1,184,589
Intangible assets, net	1,604,528	1,679,486
Long-term receivables	—	20,431
Other assets	34,425	34,363
Total assets	$ 29,838,135	$ 31,076,396
Liabilities and stockholders' deficit		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$ —	$ 49,733
Accounts payable	3,155,036	3,512,339
Accrued liabilities	7,804,406	7,079,381
Deferred revenue	8,814,091	7,519,754
Warrants and debt conversion features	6,720,765	5,644,626
Total current liabilities	26,494,298	23,805,833
Long-term debt, less current maturities	18,492,619	18,481,478
Long-term deferred revenue	441,583	491,080
Stockholders' deficit:		
Preferred stock, par value $0.001; 10,000,000 shares authorized, none outstanding at 2014 and 2013	—	—
Common stock, par value $0.001; 300,000,000 shares authorized, 19,407,340 and 19,311,390 shares issued at 2014 and 2013, respectively	19,407	19,311
Additional paid in capital	442,139,537	441,888,155
Treasury stock, 4,015 shares at 2014 and 2013	(205,999)	(205,999)
Accumulated deficit	(457,543,310)	(453,403,462)
Total stockholders' deficit	(15,590,365)	(11,701,995)
Total liabilities and stockholders' deficit	$ 29,838,135	$ 31,076,396

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Revenue:		
Systems	$ 1,334,854	$ 2,228,077
Disposables, service and accessories	7,019,816	6,180,127
Total revenue	8,354,670	8,408,204
Cost of revenue:		
Systems	559,428	1,191,352
Disposables, service and accessories	1,059,658	1,001,293
Total cost of revenue	1,619,086	2,192,645
Gross margin	6,735,584	6,215,559
Operating expenses:		
Research and development	1,503,446	1,529,207
Sales and marketing	3,631,264	4,856,014
General and administrative	3,829,866	3,423,741
Total operating expenses	8,964,576	9,808,962
Operating loss	(2,228,992)	(3,593,403)
Other income (expense)	(1,076,139)	606,102
Interest income	2,233	1,412
Interest expense	(836,950)	(1,934,258)
Net loss	$ (4,139,848)	$ (4,920,147)
Net loss per common share:		
Basic	$ (0.21)	$ (0.61)
Diluted	$ (0.21)	$ (0.61)
Weighted average shares used in computing net loss per common share:		
Basic	19,403,325	8,015,226
Diluted	19,403,325	8,015,226

See accompanying notes.

STEREOTAXIS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2014	2013
Cash flows from operating activities		
Net loss	$ (4,139,848)	$ (4,920,147)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	136,663	263,170
Amortization of intangible assets	74,958	74,958
Amortization of deferred finance costs and debt discount	70,122	860,890
Share-based compensation	307,992	598,827
Gain on debt conversion	—	(2,095)
Adjustment of warrants and convertible debt features	1,076,139	(604,007)
Interest due from issuance of stock	—	204,547
Changes in operating assets and liabilities:		
Accounts receivable	(789,933)	1,709,291
Other receivables	21,305	54,064
Inventories	(694,085)	(389,646)
Prepaid expenses and other current assets	(53,993)	(179,277)
Other assets	(62)	(1,170)
Accounts payable	(357,303)	1,181,230
Accrued liabilities	725,025	(323,555)
Deferred revenue	1,244,840	323,115
Net cash used in operating activities	(2,378,180)	(1,149,805)
Cash flows from investing activities		
Purchase of equipment	—	—
Net cash used in investing activities	—	—
Cash flows from financing activities		
Payments of term loan	—	(1,000,000)
Proceeds from revolving line of credit	—	11,235,938
Payments of revolving line of credit	—	(9,694,979)
Proceeds from Healthcare Royalty Partners debt	—	2,500,000
Payments of Healthcare Royalty Partners debt	(38,592)	(108,742)
Payments for issuance of stock and warrants	(56,514)	—
Net cash provided (used) by financing activities	(95,106)	2,932,217
Net increase (decrease) in cash and cash equivalents	(2,473,286)	1,782,412
Cash and cash equivalents at beginning of period	13,775,130	7,777,718
Cash and cash equivalents at end of period	$11,301,844	$ 9,560,130

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. *Epoch*™, *Niobe*®, *Odyssey*®, *Odyssey Cinema*™, *Vdrive*™, *Vdrive Duo*™, *V-CAS*™, *V-Loop*™, *V-Sono*™, *QuikCAS*™, *Cardiodrive*®, *PowerAssert* ™, *Titan*® and *Pegasus*™ are trademarks of Stereotaxis, Inc. All other trademarks that may appear in this report are the property of their respective owners.

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* ES system is the latest generation of the *Niobe* Robotic Magnetic Navigation System (“*Niobe* system”), which 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 a 510(k) Premarket Notification has been submitted with the U.S. Food and Drug Administration for the *V-Loop* circular catheter manipulator.

Since our inception, we have generated significant losses. As of March 31, 2014 we had incurred cumulative net losses of approximately $457.5 million. In May 2011, the Company introduced the *Niobe* ES system and as of March 31, 2014, the Company had an installed base of 108 *Niobe* ES systems and has received positive feedback from the physicians at these sites. Between 2011 and 2013, the Company implemented a wide ranging plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. We expect to incur additional losses throughout the remainder of 2014 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 marketing initiatives. During 2014, we expect operating expenses to be generally consistent with 2013 with additional investment in certain targeted areas.

We may be required to raise capital or pursue other financing strategies to continue our operations. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with cash resources primarily generated from the proceeds of our past and future public offerings, private sales of our equity securities and working capital and equipment financing loans. In the future, we may finance cash needs through the sale of other equity securities or non-core assets, strategic collaboration agreements, debt financings or through distribution rights. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors outside of our control.

Our existing cash, cash equivalents and borrowing facilities may not be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months, which would require us to obtain additional financing before that time. We cannot assure that 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.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements of Stereotaxis, Inc. have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, they include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Operating results for the three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014 or for future operating periods.

These interim financial statements and the related notes should be read in conjunction with the annual financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission (SEC) on March 27, 2014.

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 March 31, 2014 and December 31, 2013.

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 accounts for revenue using Accounting Standards Codification Topic 605-25, *Multiple-Element Arrangements* ("ASC 605-25").

ASC 605-25 permits management to estimate the selling price of undelivered components of a bundled sale for which it is unable to establish vendor-specific objective evidence ("VSOE") or third-party evidence ("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 Company believes that the 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, a portion of revenue for *Niobe* systems, *Vdrive* systems and certain *Odyssey* 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. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multiple-deliverable arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and establish an appropriate reserve for returns. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimis effect on revenue recognized in the period. We believe that the estimate is not likely to change significantly in the future.

Costs of systems revenue include direct product costs, installation labor and other costs, estimated warranty costs, and initial training and product maintenance costs. These costs are recorded at the time of sale. Costs of disposable revenue include direct product costs and 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 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 fair market value 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 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 March 31, 2014	2013
Numerator:		
Numerator for basic EPS	$ (4,139,848)	$(4,920,147)
Effect of dilutive securities:		
Subordinated convertible debentures	—	—
Numerator for diluted EPS	$ (4,139,848)	$(4,920,147)
Denominator:		
Denominator for basic EPS—weighted average shares	19,403,325	8,015,226
Effect of dilutive securities:		
Subordinated convertible debentures	—	—
Denominator for diluted EPS	19,403,325	8,015,226
Basic EPS	$ (0.21)	$ (0.61)
Diluted EPS	$ (0.21)	$ (0.61)

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

As of March 31, 2014, the Company had 516,248 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of $19.57 per share and 2,863,074 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $13.25 per share. The Company had a weighted average of 89 unearned restricted shares outstanding for the period ended March 31, 2014.

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.

3. Inventory

Inventory consists of the following:

	March 31, 2014	December 31, 2013
Raw materials	$ 2,997,410	$ 3,141,111
Work in process	190,296	364,779
Finished goods	2,424,541	1,453,362
Reserve for obsolescence	(39,123)	(80,213)
Total inventory	$ 5,573,124	$ 4,879,039

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	March 31, 2014	December 31, 2013
Prepaid expenses	$ 689,724	$ 591,305
Deferred cost of revenue	86,267	72,699
Deferred financing costs	552,826	622,949
Deposits	600,259	658,253
Total prepaid expenses and other current assets	$ 1,929,076	$ 1,945,206

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

5. Property and Equipment

Property and equipment consist of the following:

	March 31, 2014	December 31, 2013
Equipment	$ 8,143,000	$ 8,143,000
Equipment held for lease	303,412	303,412
Leasehold improvements	2,328,381	2,328,381
	10,774,793	10,774,793
Less: Accumulated depreciation	(9,726,867)	(9,590,204)
Net property and equipment	$ 1,047,926	$ 1,184,589

6. Intangible Assets

As of March 31, 2014, the Company had total intangible assets, including those described above, of $3,665,000. Accumulated amortization at March 31, 2014, was $2,060,472.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	March 31, 2014	December 31, 2013
Accrued salaries, bonus, and benefits	$ 3,811,420	$ 3,565,385
Accrued rent	1,490,004	1,499,942
Accrued warranties	449,718	501,212
Accrued interest	496,405	498,058
Accrued taxes	293,267	360,475
Other	1,263,592	654,309
Total accrued liabilities	$ 7,804,406	$ 7,079,381

Our primary company facilities are located in St. Louis, Missouri where we currently lease approximately 52,000 square feet of office and 12,000 square feet of demonstration and assembly space. In the third quarter of 2013, the Company modified the existing lease agreement to terminate approximately 13,000 square feet of unimproved space. The costs associated with the termination were $515,138 and were accrued as a rent liability as of September 30, 2013. As of March 31, 2014, the remaining accrued costs associated with the termination were $473,114.

8. Deferred Revenue

Deferred revenue consists of the following:

	March 31, 2014	December 31, 2013
Product shipped, revenue deferred	$1,265,537	$1,368,007
Customer deposits	1,101,638	421,544
Deferred service and license fees	6,888,499	6,221,283
	9,255,674	8,010,834
Less: Long-term deferred revenue	(441,583)	(491,080)
Total current deferred revenue	$8,814,091	$7,519,754

9. Long-Term Debt and Credit Facilities

Debt outstanding consists of the following:

	March 31, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Healthcare Royalty Partners debt	18,492,619	18,492,619	18,531,211	18,531,211
Total debt	18,492,619	18,492,619	18,531,211	18,531,211
Less current maturities	—	—	(49,733)	(49,733)
Total long term debt	$18,492,619	$18,492,619	$18,481,478	$18,481,478

In accordance with general accounting principles for fair value measurement, the Company’s debt and credit facilities were measured at fair value as of March 31, 2014 and December 31, 2013. Long-term debt fair value estimates are based on estimated borrowing rates to discount the cash flows to their present value (Level 3).

Revolving line of credit

On March 29, 2013, the Company amended its agreement with its primary lender, Silicon Valley Bank, to extend the maturity date of the $13 million working capital line of credit from March 31, 2013 to June 30, 2013. The Company also received from stockholders, who at the time were affiliates of two current and former members of our board of directors (the "Lenders") and were considered to be related parties, an extension of their commitment to provide $3 million in loan guarantees until June 30, 2013. 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. Under the facility the Company was required to maintain a minimum "tangible net worth" and liquidity ratio as defined in the agreement. Interest on the facility accrued at the rate of prime plus 0.5% subject to a floor of 6% for the amount under guarantee and prime plus 1.75% subject to a floor of 7% for the remaining amounts.

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 primary lender 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 primary lender 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.

On August 30, 2013, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from August 31, 2013 to March 31, 2014. In addition, the Company and the primary lender agreed to a reduction in the revolving credit line from $6.0 million to $3.0 million, the elimination of the $3.0 million sublimit guaranteed by the Lenders, and release of the guarantees by the Lenders in favor of the primary lender. The amendment eliminated the prepayment premium for the prepayment of the term loan and modified the financial covenants to (a) eliminate the minimum tangible net worth covenant, (b) substitute in lieu thereof an EBITDA test, requiring the Company to maintain a minimum EBITDA of no less than (no worse than) (i) negative $4.0 million for the trailing three-month period ending September 30, 2013 and (ii) negative $3.0 million for the trailing three-month period ending December 31, 2013, in each case tested quarterly on a trailing three month basis, and (c) revise the liquidity ratio covenant to require the Company to maintain a liquidity ratio of greater than 2:1, excluding certain short term advances from the calculation.

On March 28, 2014, 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, 2014 to March 31, 2015. In addition, the Company and the primary lender agreed to an increase in the revolving credit line from $3.0 million to $10.0 million and modified the financial covenants to (a) eliminate the EBITDA test, (b) substitute in lieu thereof a minimum tangible net worth test, requiring the Company to maintain a minimum tangible net worth of not less than (no worse than) negative $21 million, with such minimum requirement subject to increase under certain circumstances as described in the agreement, and (c) revise the liquidity ratio covenant to require the Company to maintain a liquidity ratio of greater than 1.75:1.00, excluding certain short term advances from the calculation.

As of March 31, 2014, the Company had no outstanding debt 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 March 31, 2014 the Company had a borrowing capacity of $6.2 million based on the Company's collateralized assets. As such, the Company had ability to borrow $6.2 million under the revolving line of credit at March 31, 2014.

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 the primary lender's prime plus 3.5% until September 2011, at which point it was adjusted to the lender's 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, was deferred and amortized to interest expense ratably over the life of the term loan. The term note was paid in full in September 2013.

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 three 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 ("Convert Warrants"). The Debentures bore interest at 8% per year and were to mature on May 7, 2014. In addition, the Company had the ability to issue shares of its common stock in lieu of cash interest payments under certain circumstances, and following the registration of the shares for resale, the Company issued shares in lieu of cash interest payments.

The Company recorded the Debentures on the balance sheet net of the debt discount. The debt discount of $7.6 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 was amortized over the life of the loan using the effective interest method and the warrants and derivative liability were recorded at fair value on each reporting period. Refer to Note 11 for additional discussion of the fair value of the warrants.

On August 7, 2013, holders of Convert Warrants exercised all of their Convert Warrants for an aggregate of approximately 2.5 million shares of our common stock, resulting in cash proceeds of approximately $8.5 million. In addition, holders of all of the Debentures exchanged the balance of their unconverted Debentures for an aggregate of approximately 2.7 million shares of the Company's common stock and additional warrants (the "Exchange Warrants") to purchase approximately 2.5 million shares, having an exercise price of $3.361 per share. On August 8, 2013, certain former holders of the Debentures exercised Exchange Warrants to purchase an aggregate of 1.4 million shares of common stock in cashless net exercises as provided for in the Exchange Warrants, which resulted in the issuance to such funds of an aggregate of 0.8 million shares of common stock, but no net proceeds to the Company. The Company is relying on the exemption from registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended, based on representations to the Company made by the warrant holders.

10. Stockholders' Equity

Listing Transfer to NASDAQ Capital Market

On August 15, 2013, the NASDAQ Listing Qualifications Panel (the "Panel") granted approval of the Company's request to transfer its listing to The NASDAQ Capital Market® from The NASDAQ Global Market®. The Company's securities began trading on the NASDAQ Capital Market effective August 19, 2013.

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.

Private 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. 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.

On August 7, 2013, venture funds affiliated with Sanderling Ventures received an aggregate of 183,478 shares of common stock based upon the cashless exercise of warrants to purchase an aggregate of 262,450 shares of common stock. These warrants were comprised of 75,758 warrants with an exercise price of $1.98 per share, 156,204 warrants with an exercise price of $3.361 per share and 30,488 warrants with an exercise price of $4.10 per share. The warrants were issued by the Company in private placements in 2012 and 2013 in connection with the extension of previously disclosed guarantees.

On August 13, 2013, venture funds affiliated with Sanderling Ventures exercised PIPE Warrants to purchase an aggregate of 650,619 shares of common stock in a cashless net exercise as provided for in the PIPE Warrants, which resulted in the issuance to such funds of an aggregate of 308,194 shares of common stock. As a result, there were no net proceeds to the Company.

On August 16, 2013, certain affiliates of Franklin Templeton exercised PIPE Warrants to purchase an aggregate of 650,618 shares of common stock for cash. The Company received an aggregate of $2,186,727 gross proceeds from the sale.

On August 16, 2013, Alafi Capital Company exercised PIPE Warrants to purchase an aggregate of 261,241 shares of common stock for cash. The Company received an aggregate of $878,031 gross proceeds from the sale.

On November 27, 2013, the Company announced the results of its previously announced offering of subscription rights to purchase shares of its common stock, par value $0.001 per share. Pursuant to the rights offering, subscription rights to purchase approximately 3.4 million shares of common stock were exercised, resulting in gross proceeds to Stereotaxis of approximately $10.2 million.

The holders of common stock are entitled one vote for each share held and to receive dividends whenever funds are legally available and when declared by the Board of Directors subject to the prior rights of holders of all classes of stock having priority rights as dividends and the conditions of the Revolving Credit Agreement. No dividends have been declared or paid as of March 31, 2014.

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 March 31, 2014, the Board of Directors had 368,925 remaining shares of the Company's common stock to provide for current and future grants under its various equity plans.

At March 31, 2014, 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 three month period ended March 31, 2014 is as follows:

	Number of Options/SARs	Range of Exercise Price	Weighted Average Exercise Price per Share
Outstanding, December 31, 2013	188,947	$1.69 - $116.40	$ 48.38
Granted	336,850	$ 4.04 - $5.19	$ 4.04
Exercised	—	—	—
Forfeited	(9,549)	$ 1.69 - $67.70	$ 41.82
Outstanding, March 31, 2014	516,248	$1.69 - $116.40	$ 19.57

As of March 31, 2014, there were no restricted shares outstanding. A summary of the restricted share grant activity for the three month period ended March 31, 2014 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding, December 31, 2013	6,600	$ 35.20
Granted	—	—
Vested	(6,600)	$ 35.20
Forfeited	—	—
Outstanding, March 31, 2014	—	$ 0.00

A summary of the restricted stock unit activity for the three month period ended March 31, 2014 is as follows:

	Number of Restricted Shares Units	Weighted Average Grant Date Fair Value per Unit
Outstanding, December 31, 2013	588,759	$ 2.05
Granted	328,400	$ 4.05
Vested	(95,950)	$ 2.49
Forfeited	(712)	$ 1.71
Outstanding, March 31, 2014	820,497	$ 2.80

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.

		Fair Value Measurement Using		
	Total	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at March 31, 2014:				
Cash equivalents	$ 8,970,282	8,970,282	—	—
Total assets at fair value	$ 8,970,282	8,970,282	—	—
Liabilities at March 31, 2014:				
Warrants issued December 29, 2008	$ 597	—	—	597
Warrants issued May 10, 2012	2,316,594	—	—	2,316,594
Warrants issued August 2013	4,403,574			4,403,574
Total liabilities at fair value:	$ 6,720,765	—	—	6,720,765
Assets at December 31, 2013:				
Cash equivalents	$11,995,481	11,995,481	—	—
Total assets at fair value	$11,995,481	11,995,481	—	—
Liabilities at December 31, 2013:				
Warrants issued December 29, 2008	$ 16,863	—	—	16,863
Warrants issued May 10, 2012	1,915,753	—	—	1,915,753
Warrants issued August 2013	3,712,010	—	—	3,712,010
Total liabilities at fair value:	$ 5,644,626	—	—	5,644,626

Level 1

The Company's financial assets consist of cash equivalents invested in money market funds in the amount of $8,970,282 and $11,995,481 at March 31, 2014 and December 31, 2013, respectively. These assets are classified as Level 1 as described above and total interest income recorded for these investments was insignificant during both the three month periods ended March 31, 2014 and March 31, 2013. There were no transfers in or out of Level 1 during the period ended March 31, 2014.

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 $597 were measured at fair value on a recurring basis as of March 31, 2014 and were valued using Level 3 valuation inputs. A Black-Scholes model was used to value the Company's warrants at March 31, 2014 using the following assumptions: 1) dividend yield of 0%; 2) volatility of 88.68%; 3) risk-free interest rate of 0.9%; and 4) expected life of 0.25 of a 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 was classified as a derivative liability within "Warrants and derivative liabilities" 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 was classified as a derivative asset within "Prepaid and other current assets" on the Company's balance sheet. The derivative asset was periodically remeasured with any changes in value recognized in "Other income (expense)" in the Statement of Operations.

Based on the discussion of the Debentures in Note 10, the Debentures along with their derivative liability and asset, and related warrants were extinguished in the third quarter of 2013.

The initial valuation of Exchange warrants were valued as of August 7, 2013 using the following assumptions: 1) volatility of 111%; 2) risk-free interest rate of 1.46%; and 3) a closing stock price of $8.69.

The remaining Exchange warrants were revalued as of March 31, 2014 using the following assumptions: 1) volatility of 146.43%; 2) risk-free interest rate of 1.73%; and 3) a closing stock price of $4.25.

The remaining PIPE warrants were revalued as of March 31, 2014 using the following assumptions: 1) volatility of 154.24%; 2) risk-free interest rate of 1.73%; and 3) a closing stock price of $4.25.

The significant unobservable input used in the fair value measurement of the Company's warrants is volatility. Significant increases (decreases) in the volatility in isolation would result in a significantly higher (lower) 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 three month period ended March 31, 2014:

	Warrants issued December 29, 2008	Warrants issued May 2012	Warrants issued August 2013	Total Liabilities
Balance at beginning of period	$ 16,863	$ 1,915,753	$ 3,712,010	$ 5,644,626
Settlements	—	—	—	—
Revaluation	(16,266)	400,841	691,564	1,076,139
Balance at end of period	$ 597	$ 2,316,594	$ 4,403,574	$ 6,720,765

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:

	March 31, 2014	December 31, 2013
Warranty accrual, beginning of the fiscal period	$ 501,212	$ 653,473
Accrual adjustment for product warranty	(34,553)	84,562
Payments made	(16,941)	(236,823)
Warranty accrual, end of the fiscal period	$ 449,718	$ 501,212

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

None.

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, 2013. 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 ("*Vdrive* system").

The *Niobe* ES system is the latest generation of the *Niobe* Robotic Magnetic Navigation System ("*Niobe* system"), which 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 a 510(k) Premarket Notification has been submitted with the U.S. Food and Drug Administration for the *V-Loop* circular catheter manipulator.

Since our inception, we have generated significant losses. As of March 31, 2014 we had incurred cumulative net losses of approximately $457.5 million. In May 2011, the Company introduced the *Niobe* ES system and as of March 31, 2014, the Company had an installed base of 108 *Niobe* ES systems and has received positive feedback from the physicians at these sites. Between 2011 and 2013, the Company implemented a wide ranging plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. We expect to incur additional losses throughout the remainder of 2014 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 marketing initiatives. During 2014, we expect operating expenses to be generally consistent with 2013 with additional investment in certain targeted areas.

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, 2013.

Revenue Recognition

The Company accounts for revenue using Accounting Standards Codification Topic 605-25, *Multiple-Element Arrangements* (“ASC 605-25”).

ASC 605-25 permits management to estimate the selling price of undelivered components of a bundled sale for which it is unable to establish vendor-specific objective evidence (“VSOE”) or third-party evidence (“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 Company believes that the 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, a portion of revenue for *Niobe* systems, *Vdrive* systems and certain *Odyssey* 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. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multiple-deliverable arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and establish an appropriate reserve for returns. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimis effect on revenue recognized in the period. We believe that the estimate is not likely to change significantly in the future.

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

Results of Operations

Comparison of the Three Months Ended March 31, 2014 and 2013

Revenue. Revenue has remained relatively consistent with the three months ended March 31, 2013 at $8.4 million. Revenue from the sale of systems decreased from $2.2 million to $1.3 million, a decrease of approximately 40%, primarily due to lower *Niobe* and *Odyssey* system sales volumes. We recognized *Niobe* system revenue of $0.7 million, which included system installation revenue, one *Niobe ES* system upgrade and a customer deposit for a previously cancelled *Niobe ES* order. In addition, system revenue in the 2014 period included a total of $0.2 million for *Odyssey* and *Odyssey Cinema* systems and a total of $0.4 million for *Vdrive* systems. System revenue for the prior year period included one *Niobe* ES system, a total of $0.5 million for *Niobe* ES upgrades, a total of $0.7 million for *Odyssey* and *Odyssey Cinema* systems, and a total of $0.1 million for *Vdrive* systems. Revenue from sales of disposable interventional devices, service and accessories increased to $7.0 million for the three months ended March 31, 2014 from $6.2 million for the three months ended March 31, 2013, an increase of approximately 14%. The increase was attributable to higher disposable sales volume.

Cost of Revenue. Cost of revenue decreased to $1.6 million for the three months ended March 31, 2014 from $2.2 million for the three month ended March 31, 2013. As a percentage of our total revenue, overall gross margin increased to 81% for the three months ended March 31, 2014 from 74% for the three months ended March 31, 2013 due to a shift in product mix from system revenue to higher margin disposable, service and accessory revenue. Cost of revenue for systems sold decreased from $1.2 million for the three months ended March 31, 2013 to $0.6 million for the three months ended March 31, 2014, a decrease of approximately 53%, due primarily to decreased *Niobe* and *Odyssey* system sales volumes. Gross margin for systems increased to 58% for the three months ended March 31, 2014 from 47% for the three months ended March 31, 2013. This increase was primarily due to a customer deposit for a previously cancelled *Niobe ES* order which included in system revenue for the current year period. Cost of revenue for disposables, service and accessories increased slightly from 1.0 million for the three months ended March 31, 2013 to $1.1 million for the three months ended March 31, 2014, primarily driven by higher disposable sales volume. Gross margin for disposables, service and accessories was 85% for the current quarter compared to 84% for the three months ended March 31, 2013.

Research and Development Expenses. Research and development expenses has remained relatively consistent with the three months ended March 31, 2013 at $1.5 million.

Sales and Marketing Expenses. Sales and marketing expenses decreased from $4.9 million for the three months ended March 31, 2013 to $3.6 million for the three months ended March 31, 2014, a decrease of approximately 25%. This decrease was primarily due to reduced headcount and travel expenses as part of the Company's continued 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 increased from $3.4 million for the three months ended March 31, 2013 to $3.8 million for the three months ended March 31, 2014, an increase of approximately 12%. This increase was primarily due to increased regulatory expenses.

Other Expense. Other expense represents the non-cash 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 expense also includes the adjustment in fair value of the derivative asset and liability related to the conversion features embedded in the subordinated convertible debentures during periods in which the debentures were outstanding.

Interest Expense. Interest expense decreased to $0.8 million for the three months ended March 31, 2014 from $1.9 million for the three months ended March 31, 2013, due primarily to the extinguishment of the convertible debentures and pay off of the line of credit and term loan in 2013.

Liquidity and Capital Resources

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents. At March 31, 2014 we had $11.3 million of cash and equivalents. We had working capital of approximately $0.7 million and $4.4 million as of March 31, 2014 and December 31, 2013, respectively. The decrease in the working capital is due principally to the net losses incurred for the first three months of 2014.

The following table summarizes our cash flow by operating, investing and financing activities for the three months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cash flow used in operating activities	$ (2,378)	$ (1,150)
Cash flow used in investing activities	—	—
Cash flow provided by financing activities	(95)	2,932

Net cash used in operating activities. We used approximately $2.4 million and $1.2 million of cash for operating activities during the three months ended March 31, 2014 and 2013, respectively. This increase was primarily driven by changes in working capital requirements, partially offset by a decrease in the net loss.

Net cash used in investing activities. There were no purchases of equipment for the three month period ended March 31, 2014 and March 31, 2013.

Net cash provided by financing activities. We used approximately $0.1 million of cash for the three month period ended March 31, 2014 compared to the $2.9 million generated for the three month period ended March 31, 2013. This decrease in cash generated was primarily driven reduced borrowings in the current year period.

We may be required to raise capital or pursue other financing strategies to continue our operations. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with cash resources primarily generated from the proceeds of our past and future public offerings, private sales of our equity securities and working capital and equipment financing loans. In the future, we may finance cash needs through the sale of other equity securities or non-core assets, strategic collaboration agreements, debt financings or through distribution rights. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors outside of our control.

Our existing cash, cash equivalents and borrowing facilities may not be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months, which would require us to obtain additional financing before that time. We cannot assure that 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 March 31, 2014, our borrowing facilities were comprised of a revolving line of credit maintained with our primary lender, Silicon Valley Bank, as well as the Healthcare Royalty Partners debt discussed in the following sections.

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

On March 29, 2013, the Company amended its agreement with its primary lender to extend the maturity date of the $13 million working capital line of credit from March 31, 2013 to June 30, 2013. The Company also received from stockholders, who at the time were affiliates of two current and former members of our board of directors (the "Lenders") and were considered to be related parties, an extension of their commitment to provide $3 million in loan guarantees until June 30, 2013. 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. Under the facility the Company was required to maintain a minimum "tangible net worth" and liquidity ratio as defined in the agreement. Interest on the facility accrued at the rate of prime plus 0.5% subject to a floor of 6% for the amount under guarantee and prime plus 1.75% subject to a floor of 7% for the remaining amounts.

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 primary lender 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 primary lender 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.

On August 30, 2013, the Company amended its agreement with its primary lender. The amendment extended the maturity date of the working capital line of credit from August 31, 2013 to March 31, 2014. In addition, the Company and the primary lender agreed to a reduction in the revolving credit line from $6.0 million to $3.0 million, the elimination of the $3.0 million sublimit guaranteed by the Lenders, and release of the guarantees by the Lenders in favor of the primary lender. The amendment eliminated the prepayment premium for the prepayment of the term loan and modified the financial covenants to (a) eliminate the minimum tangible net worth covenant, (b) substitute in lieu thereof an EBITDA test, requiring the Company to maintain a minimum EBITDA of no less than (no worse than) (i) negative $4.0 million for the trailing three-month period ending September 30, 2013 and (ii) negative $3.0 million for the trailing three-month period ending December 31, 2013, in each case tested quarterly on a trailing three month basis, and (c) revise the liquidity ratio covenant to require the Company to maintain a liquidity ratio of greater than 2:1, excluding certain short term advances from the calculation.

On March 28, 2014, 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, 2014 to March 31, 2015. In addition, the Company and the primary lender agreed to an increase in the revolving credit line from $3.0 million to $10.0 million and modified the financial covenants to (a) eliminate the EBITDA test, (b) substitute in lieu thereof a minimum tangible net worth test, requiring the Company to maintain a minimum tangible net worth of not less than (no worse than) negative $21 million, with such minimum requirement subject to increase under certain circumstances as described in the agreement, and (c) revise the liquidity ratio covenant to require the Company to maintain a liquidity ratio of greater than 1.75:1.00, excluding certain short term advances from the calculation.

As of March 31, 2014, the Company had no outstanding debt 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 March 31, 2014 the Company had a borrowing capacity of $6.2 million based on the Company's collateralized assets. As such, the Company had ability to borrow $6.2 million under the revolving line of credit at March 31, 2014.

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 the primary lender's prime plus 3.5% until September 2011, at which point it was adjusted to the lender's 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, was deferred and amortized to interest expense ratably over the life of the term loan. The term note was paid in full in September 2013.

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 (“Convert Warrants”). The Debentures bore interest at 8% per year and were to mature on May 7, 2014. In addition, the Company had the ability to issue shares of its common stock in lieu of cash interest payments under certain circumstances, and following the registration of the shares for resale, the Company issued shares in lieu of cash interest payments.

The Company recorded the Debentures on the balance sheet net of the debt discount. The debt discount of $7.6 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 was amortized over the life of the loan using the effective interest method and the warrants and derivative liability were recorded at fair value on each reporting period. Refer to Note 11 for additional discussion of the fair value of the warrants.

On August 7, 2013, holders of Convert Warrants exercised all of their Convert Warrants for an aggregate of approximately 2.5 million shares of our common stock, resulting in cash proceeds of approximately $8.5 million. In addition, holders of all of the Debentures exchanged the balance of their unconverted Debentures for an aggregate of approximately 2.7 million shares of the Company’s common stock and additional warrants (the “Exchange Warrants”) to purchase approximately 2.5 million shares, having an exercise price of $3.361 per share. On August 8, 2013, certain former holders of the Debentures exercised Exchange Warrants to purchase an aggregate of 1.4 million shares of common stock in cashless net exercises as provided for in the Exchange Warrants, which resulted in the issuance to such funds of an aggregate of 0.8 million shares of common stock, but no net proceeds to the Company. The Company is relying on the exemption from registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended, based on representations to the Company made by the warrant holders.

Listing Transfer to NASDAQ Capital Market

On August 15, 2013, the NASDAQ Listing Qualifications Panel (the “Panel”) granted approval of the Company’s request to transfer its listing to The NASDAQ Capital Market from The NASDAQ Global Market. The Company’s securities began trading on the NASDAQ Capital Market effective August 19, 2013.

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.

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. 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.

On August 7, 2013, venture funds affiliated with Sanderling Ventures received an aggregate of 183,478 shares of common stock based upon the cashless exercise of warrants to purchase an aggregate of 262,450 shares of common stock. These warrants were comprised of 75,758 warrants with an exercise price of $1.98 per share, 156,204 warrants with an exercise price of $3.361 per share and 30,488 warrants with an exercise price of $4.10 per share. The warrants were issued by the Company in private placements in 2012 and 2013 in connection with the extension of previously disclosed guarantees.

On August 13, 2013, venture funds affiliated with Sanderling Ventures exercised PIPE Warrants to purchase an aggregate of 650,619 shares of common stock in a cashless net exercise as provided for in the PIPE Warrants, which resulted in the issuance to such funds of an aggregate of 308,194 shares of common stock. As a result, there were no net proceeds to the Company.

On August 16, 2013, certain affiliates of Franklin Templeton exercised PIPE Warrants to purchase an aggregate of 650,618 shares of common stock for cash. The Company received an aggregate of $2,186,727 gross proceeds from the sale.

On August 16, 2013, Alafi Capital Company exercised PIPE Warrants to purchase an aggregate of 261,241 shares of common stock for cash. The Company received an aggregate of $878,031 gross proceeds from the sale.

On November 27, 2013, the Company announced the results of its previously announced offering of subscription rights to purchase shares of its common stock, par value $0.001 per share. Pursuant to the rights offering, subscription rights to purchase approximately 3.4 million shares of common stock were exercised, resulting in gross proceeds to Stereotaxis of approximately $10.2 million.

The holders of common stock are entitled one vote for each share held and to receive dividends whenever funds are legally available and when declared by the Board of Directors subject to the prior rights of holders of all classes of stock having priority rights as dividends and the conditions of the Revolving Credit Agreement. No dividends have been declared or paid as of March 31, 2014.

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 March 31, 2014 we have not hedged exposures in foreign currencies or entered into any other derivative instruments.

For the three months ended March 31, 2014, sales denominated in foreign currencies were approximately 18% of total revenue and as such, our revenue would have decreased by approximately $0.1 million if the U.S. dollar exchange rate used would have strengthened by 10%. For the three months ended March 31, 2014, expenses denominated in foreign currencies were approximately 9% of our total expenses and as such, our operating expenses would have decreased by approximately $0.1 million if the U.S. dollar exchange rate used would have strengthened by 10%. In addition, we have assets and liabilities denominated in foreign currencies. A 10% strengthening of the U.S. dollar exchange rate against all currencies with which we have exposure at March 31, 2014 would have resulted in a $0.3 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 March 31, 2014, 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. Certain issuances of our outstanding debt are subject to a minimum interest rate of 7.0%, however a hypothetical increase in interest rates of 100 basis points would have no impact on interest expense due to interest rate floors on our floating rate debt.

Inflation Risk

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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, 2013, 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 alleged 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 sought 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 dismiss, and on August 30, 2012, the Company filed its reply brief in support of the motion to dismiss. On March 18, 2014, the Court granted the Company’s motion to dismiss and entered judgment in favor of the defendants and against the plaintiffs. The plaintiffs did not file a notice of appeal prior to the deadline of April 17, 2014.

As described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, 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 stay currently remains in effect. 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

Risk Factors are discussed in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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STEREOTAXIS, INC.
SIGNATURES

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

	STEREOTAXIS, INC. (Registrant)
Date: May 9, 2014	By: /s/ William C. Mills III **William C. Mills III,** **Chief Executive Officer**
Date: May 9, 2014	By: /s/ Martin C. Stammer **Martin C. Stammer,** **Chief Financial Officer**

EXHIBIT INDEX

Number	Description
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	Ninth Loan Modification Agreement (Domestic), dated March 28, 2014, between the Company, Stereotaxis International, Inc., and Silicon Valley Bank, incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (File No. 001-36159) filed on March 31, 2014.
10.2	Summary of Non-Employee Director Compensation Program, 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.

Exhibit 10.2

NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM

Summary of Non-Employee Director Compensation effective April 1, 2014:

Cash Compensation

Annual retainer to each director	$35,000
Additional retainer amounts as follows:	
Audit Committee Chair	$15,000
Compensation Committee Chair	$10,000
Nominating & Corporate Governance Committee Chair	$ 6,000
Audit Committee Member*	$ 7,500
Compensation Committee Member*	$ 5,000
Nominating & Corporate Governance Committee Member*	$ 3,000

* other than the chair

Equity Compensation

Annual equity awards are automatically granted to non-employee directors on the date of each respective annual shareholders' meeting. A new director receives an equity award on the date of such director's appointment or election to the Board. All equity awards to directors are issued under the Stereotaxis, Inc. 2012 Stock Incentive Plan.

Grant Type	Number of Shares
Annual Grant[1]	10,000 Restricted Share Units
New Director Grant[2]	20,000 Restricted Share Units

1 Restricted Share Units granted annually to the directors will vest one year from the applicable date of grant, or on the date of the next annual shareholders' meeting, whichever is earlier.

2 Restricted Share Units granted to any new director will vest over a period of two (2) years with 50% vesting on the first anniversary of the date of the grant and the remaining 50% vesting on the second anniversary of the date of the grant.

Exhibit 31.1

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: May 9, 2014

/s/ William C. Mills III

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

Exhibit 31.2

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: May 9, 2014

/s/ Martin C. Stammer

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

Exhibit 32.1

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

In connection with the quarterly report of Stereotaxis, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William C. Mills III, Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: May 9, 2014

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

Exhibit 32.2

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

In connection with the quarterly report of Stereotaxis, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2014 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: May 9, 2014

/s/ Martin C. Stammer
Martin C. Stammer
Chief Financial Officer
Stereotaxis, Inc.