Stereotaxis, Inc.
Form 10-Q
November 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011.

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

For the transition period from to .

Commission File Number: 000-50884

STEREOTAXIS, INC.

(Exact name of registrant as specified in its charter)

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

The number of outstanding shares of the registrant s common stock on November 1, 2011 was 55,431,723.

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STEREOTAXIS, INC.

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ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.

BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 16,979,863	$ 35,248,819
Accounts receivable, net of allowance of $386,153 and $367,536 in 2011 and 2010, respectively	4,533,990	13,915,569
Current portion of long-term receivables	64,271	30,800
Inventories	5,866,506	5,441,475
Prepaid expenses and other current assets	3,314,810	4,557,718
Total current assets	30,759,440	59,194,381
Property and equipment, net	3,634,185	3,840,622
Intangible assets, net	2,354,111	2,578,986
Long-term receivables	81,514	109,266
Other assets	41,821	38,537
Total assets	$ 36,871,071	$ 65,761,792
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$ 28,992,163	$ 20,894,091
Accounts payable	7,006,495	8,796,182
Accrued liabilities	6,153,088	6,966,571
Deferred revenue	8,180,801	6,600,313
Warrants	289,976	3,541,798
Total current liabilities	50,622,523	46,798,955
Long-term debt, less current maturities		8,000,000
Long-term deferred revenue	335,296	478,850
Other liabilities	3,094	8,741
Stockholders equity (deficit):		
Preferred stock, par value $0.001; 10,000,000 shares authorized at 2011 and 2010, none outstanding at 2011 and 2010		
Common stock, par value $0.001; 100,000,000 shares authorized at 2011 and 2010, 55,408,312 and 54,746,240 shares issued at 2011 and 2010, respectively	55,408	54,746
Additional paid in capital	355,954,708	354,002,770
Treasury stock, 40,151 shares at 2011 and 2010	(205,999)	(205,999)
Accumulated deficit	(369,893,959)	(343,376,271)
Total stockholders equity (deficit)	(14,089,842)	10,475,246
Total liabilities and stockholders equity (deficit)	$ 36,871,071	$ 65,761,792

See accompanying notes.

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STEREOTAXIS, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue:				
Systems	$ 2,037,742	$ 8,153,088	$ 11,350,461	$ 22,826,700
Disposables, service and accessories	6,506,272	5,719,166	19,020,396	16,680,241
Total revenue	8,544,014	13,872,254	30,370,857	39,506,941
Cost of revenue:				
Systems	1,723,874	3,091,734	6,428,783	9,482,225
Disposables, service and accessories	933,380	763,348	2,749,796	2,219,680
Total cost of revenue	2,657,254	3,855,082	9,178,579	11,701,905
Gross margin	5,886,760	10,017,172	21,192,278	27,805,036
Operating expenses:				
Research and development	3,529,321	2,868,426	10,234,757	9,595,972
Sales and marketing	6,885,786	7,269,005	24,936,641	22,410,734
General and administrative	4,527,489	3,471,244	13,384,313	11,337,637
Total operating expenses	14,942,596	13,608,675	48,555,711	43,344,343
Operating loss	(9,055,836)	(3,591,503)	(27,363,433)	(15,539,307)
Other income (expense)	2,611,067	(920,222)	3,251,822	49,830
Interest income	1,817	3,004	7,137	7,934
Interest expense	(830,118)	(635,176)	(2,413,214)	(1,951,098)
Net loss	$ (7,273,070)	$ (5,143,897)	$ (26,517,688)	$ (17,432,641)
Net loss per common share:				
Basic and diluted	$ (0.13)	$ (0.10)	$ (0.48)	$ (0.35)
Weighted average shares used in computing net loss per common share:				
Basic and diluted	54,878,235	50,137,857	54,793,509	49,847,321

See accompanying notes.

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STEREOTAXIS, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities		
Net loss	$ (26,517,688)	$ (17,432,641)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	1,095,613	1,320,082
Amortization	224,875	155,500
Amortization of warrants	995,926	906,525
Share-based compensation	1,741,184	1,361,352
Loss on asset disposal	83,705	5,039
Non-cash royalty (income), net	(2,353,718)	(2,490,119)
Warrant adjustment	(3,251,822)	(49,830)
Changes in operating assets and liabilities:		
Accounts receivable	9,381,579	242,804
Other receivables	(5,719)	4,596
Inventories	(425,031)	(891,938)
Prepaid expenses and other current assets	246,982	797,438
Other assets	(3,284)	
Accounts payable	(1,789,687)	2,873,467
Accrued liabilities	(813,483)	(346,707)
Deferred revenue	1,436,934	(531,576)
Other liabilities	(5,647)	(8,552)
Net cash used in operating activities	(19,959,281)	(14,084,560)
Cash flows from investing activities		
Purchase of equipment	(972,881)	(605,673)
Net cash used in investing activities	(972,881)	(605,673)
Cash flows from financing activities		
Proceeds from revolving line of credit	52,309,376	42,469,200
Payments of revolving line of credit	(46,409,376)	(35,833,334)
Payments of short-term debt	(3,448,210)	
Payments of long-term debt		(1,300,782)
Proceeds from issuance of stock and warrants, net of issuance costs	211,416	601,327
Net cash provided by financing activities	2,663,206	5,936,411
Net decrease in cash and cash equivalents	(18,268,956)	(8,753,822)
Cash and cash equivalents at beginning of period	35,248,819	30,546,550
Cash and cash equivalents at end of period	$ 16,979,863	$ 21,792,728

See accompanying notes.

STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Notes to Financial Statements

1. Description of Business

Stereotaxis designs, manufactures and markets an advanced cardiology instrument control system for use in a hospital s interventional surgical suite to enhance the treatment of arrhythmias and coronary artery disease. The NIOBE® system is designed to enable physicians to complete more complex interventional procedures by providing image guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures and reduced x-ray exposure.

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

The core components of the NIOBE and the ODYSSEY systems have received regulatory clearance in the U.S., Canada, Europe, China and various other countries.

From inception to September 30, 2011, the Company has incurred losses totaling approximately $369.9 million. The Company expects such losses to continue through at least the year ended December 31, 2011. In May 2011, the Company introduced the NIOBE EPOCH Solution. Although the NIOBE EPOCH Solution is not available to customers until December 2011, the product change created a rapid shift away from sales of the current NIOBE II, resulting in lower System Revenue through September 30, 2011 compared to the same period in 2010. During the quarter ended September 30, 2011, the Company implemented a detailed plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. As of September 30, 2011, the Company has completed the majority of the operating expense declines through headcount reductions and discretionary spending cuts and continues to implement processes and changes to further reduce operating expenses.

As a result of the losses incurred, cash used in operations was significantly higher than expected. In September 2011, the Company amended its agreement with its primary lender. Under the amendment, the lender waived the minimum tangible net worth covenant contained in the original agreement for the compliance period ended September 30, 2011. The amendment also reduced the availability of all credit extensions, other than the term loan, from $30 million to $20 million and increased the interest rate applicable to the term loan from the lender s prime rate plus 3.5% to the lender s prime rate plus 5.5%. Finally, the amendment established a new financial covenant which requires the Company to receive net proceeds equal to or greater than $10 million on or before November 30, 2011 from (i) the issuance by the Company of additional subordinated debt; (ii) with the prior written consent of the Bank, the sale and/or exclusive licensing of certain assets of the Company; and/or (iii) the issuance of additional equity of the Company.

The Company entered into a non-binding term sheet on October 11, 2011 with an institutional investor to raise non-equity capital. The Company expects the capital raise to be completed by November 30, 2011, satisfying the Company s obligation under its agreement with its primary lender. The term sheet is subject to customary closing conditions, including the execution of definitive agreements. See Note 9 for additional discussion of the Company s outstanding debt facilities.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements of Stereotaxis, Inc. (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, they include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Operating results for the nine month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011 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, 2010 as filed with the Securities and Exchange Commission (SEC) on March 11, 2011.

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

Revenue and Costs of Revenue

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

Under our revenue recognition policy, a portion of revenue for NIOBE, ODYSSEY VISION, and ODYSSEY CINEMA 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. We may deliver systems to a non-hospital site at the customer s request. We evaluate whether delivery has occurred considering general accounting principles for revenue recognition with respect to bill and hold transactions. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue.

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

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

Net Loss per Common Share

Basic and diluted net loss per common share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. The largest adjustment between the shares outstanding at September 30, 2011 and the weighted average shares used for calculating basic earnings per share for the quarter ended September 30, 2011 is the deduction of unvested restricted shares, which amounted to 531,202 at September 30, 2011.

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

As of September 30, 2011, the Company had 5,711,316 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of $5.00 per share and 10,381,613 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $4.20 per share. The Company had a weighted average of 517,537 and 455,001 unearned restricted shares outstanding for the three and nine months ended September 30, 2011, respectively.

Fair Value Measurements

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

The Company s financial assets consist of cash equivalents invested in money market funds in the amount of $43,471 and $12,238,932 at September 30, 2011 and December 31, 2010, respectively. These assets are classified as Level 1 as described above and total interest income recorded for these investments was approximately $30 and $1,400 during the three and nine months ended September 30, 2011. There were no transfers in or out of Level 1 during the nine months ended September 30, 2011.

The Company s financial liabilities consist of warrants in the amount of $289,976 at September 30, 2011. These liabilities are classified as Level 3 as described above and are measured using the Black-Scholes valuation model. The mark-to-market adjustment recorded in other income (expense) for these warrants was $2,611,067 and $3,251,822 during the three and nine months ended September 30, 2011. There were no purchases, sales, issuances, transfers, or settlements of Level 3 financial instruments during the nine months ended September 30, 2011. These warrants were transferred into Level 3 on January 1, 2009 based on the adoption of general accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity s own stock. See Note 11 for additional details.

Fair Value Other Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for other financial instruments as of September 30, 2011 and December 31, 2010.

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

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

Share-Based Compensation

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

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

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

Recently Issued Accounting Pronouncements

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

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

3. Inventory

Inventory consists of the following:

	September 30, 2011	December 31, 2010
Raw materials	$ 2,160,000	$ 1,547,020
Work in process		592,221
Finished goods	3,865,450	3,841,752
Reserve for obsolescence	(158,944)	(539,518)
Total inventory	$ 5,866,506	$ 5,441,475

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	September 30, 2011	December 31, 2010
Prepaid expenses	$ 470,865	$ 401,789
Deferred cost of revenue	480,324	759,271
Other assets	2,363,621	3,396,658
Total prepaid expenses and other current assets	$ 3,314,810	$ 4,557,718

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.

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Property and Equipment

Property and equipment consist of the following:

	September 30, 2011	December 31, 2010
Equipment	$ 9,966,128	$ 8,950,043
Equipment held for lease	547,416	547,416
Leasehold improvements	2,328,381	2,473,880
	12,841,925	11,971,339
Less: Accumulated depreciation	(9,207,740)	(8,130,717)
Net property and equipment	$ 3,634,185	$ 3,840,622

6. Intangible Assets

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

As of September 30, 2011, the Company had total intangible assets, including those described above, of $3.7 million. Accumulated amortization at September 30, 2011 is $1.3 million.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	September 30, 2011	December 31, 2010
Accrued salaries, bonus, and benefits	$ 3,378,210	$ 4,203,551
Accrued research and development	73,992	246,119
Accrued legal and other professional fees	279,470	170,498
Other	2,421,416	2,346,403
Total accrued liabilities	$ 6,153,088	$ 6,966,571

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Deferred Revenue

Deferred revenue consists of the following:

	September 30, 2011	December 31, 2010
Product shipped, revenue deferred	$ 876,320	$ 552,692
Customer deposits	1,465,647	312,154
Deferred service and license fees	6,174,130	6,214,317
	8,516,097	7,079,163
Less: Long-term deferred revenue	(335,296)	(478,850)
Total current deferred revenue	$ 8,180,801	$ 6,600,313

9. Long-Term Debt and Credit Facilities

Debt outstanding consists of the following:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Revolving credit agreement, due March 2012	$ 16,900,000	$ 17,074,473	$ 11,000,000	$ 11,284,412
Term note, due December 2013	9,000,000	9,000,000	10,000,000	10,000,000
Biosense Webster Advance	3,092,163	3,115,645	7,894,091	8,005,365
Total debt	28,992,163	29,190,118	28,894,091	29,289,777
Less current maturities	(28,992,163)	(29,190,118)	(20,894,091)	(21,289,777)
Total long term debt	$	$	$ 8,000,000	$ 8,000,000

STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

Revolving line of credit

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

In September 2011, the Company amended its agreement with its primary lender. Pursuant to the agreement, the lender waived the minimum tangible net worth financial covenant contained in the original amendment for the compliance period ended September 30, 2011. The Company was in compliance with the liquidity ratio covenant for this period. The amendment also reduces the availability amount of all credit extensions, other than the term loan, from $30 million to $20 million, and modifies the interest rate applicable to the term loan from the lender s prime rate plus 3.5% to the lender s prime rate plus 5.5%. Additionally, the amendment provides for a new financial covenant that, on or before November 30, 2011, the Company must receive net proceeds in an amount equal to or greater than $10 million from (i) the issuance by the Company of additional subordinated debt; (ii) with the prior written consent of the primary lender, the sale and/or exclusive licensing of certain assets of the Company; and/or (iii) the issuance of additional equity of the Company.

As of September 30, 2011, the Company had $16.9 million outstanding under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one month in arrears. As of August 31, 2011, the Company had a borrowing capacity of $17.0 million based on the Company s collateralized assets, including amounts already drawn. As such, the Company had the ability to borrow an additional $0.1 million under the revolving line of credit at September 30, 2011. As of September 30, 2011, the Company had no remaining availability on its Lender loan and guarantee. In the event that the Company does not renew or modify the terms of its existing debt facility, it is probable that the Company will not meet all covenants of its bank loan agreement as of November 30, 2011. In the event that the covenants are not met, it is possible that the primary lender could call the Company s outstanding debt, including the revolving line of credit and term note (defined below).

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

Term note

Under the 2010 amendment to the loan agreement, the Company entered into a $10 million term loan maturing on December 31, 2013 with $2 million of principal due in 2011 and $4 million of principal due in each of 2012 and 2013. Interest on the term loan accrues at the rate of prime plus 3.5%. Under the September 2011 amendment of the loan agreement, the interest rate on the term loan was increased to prime plus 5.5%. As described above, in the event that the covenants of the loan agreement are not met, the primary lender could call the Company s outstanding debt. Under ASC 470 Debt, callable obligations are classified as current unless the creditor waives the right to call the debt for a period of more than one year or it is probable that the violation will be cured within the grace period provided by the lender. Because the lender waived the covenant only for the quarter ended September 30, 2011 and without a future capital transaction, the Company does not expect to cure the violation prior to December 31, 2011, the entire term note is classified as short-term debt as of September 30, 2011.

Biosense Webster Advance

In July 2008, the Company and Biosense Webster entered into an amendment to their existing agreements relating to the development and sale of catheters. Pursuant to the amendment, Biosense Webster agreed to pay to the Company $10.0 million as an advance on royalty amounts that were owed at the time the amendment was executed or would be owed in the future by Biosense Webster to the Company pursuant to the royalty provisions of one of the existing agreements. The Company and Biosense Webster also agreed that an aggregate of up to $8.0 million of certain agreed upon research and development expenses that were owed at the time the amendment was executed or may be owed in the future by the

Company to Biosense Webster pursuant to the existing agreement would be deferred and will be due, together with any unrecouped portion of the $10.0 million royalty advance, on the Final Payment Date (as defined below). Interest on the outstanding and unrecouped amounts of the royalty advance and deferred research and development expenses will accrue at an interest rate of the prime rate plus 0.75%. Outstanding royalty advances and deferred research and development expenses and accrued interest thereon will be recouped by Biosense Webster by deductions from royalty amounts otherwise owed to the Company from Biosense Webster pursuant to the existing agreement. The Company has the right to prepay any amounts due pursuant to the Amendment at any time without penalty. Approximately $18.0 million had been advanced by Biosense Webster to the Company pursuant to the amendment. As of September 30, 2011, $12.4 million of royalty payments owed by Biosense and $4.5 million in supplemental payments had been used to reduce the advances together with the accrued interest thereon and the remaining approximately $3.1 million of amounts owed to Biosense Webster has been classified as short-term debt in the accompanying balance sheet. The Company recorded interest expense of $0.1 million and $0.2 million and disposables, service and accessories revenue of $0.8 million and $2.6 million for the three and nine months ended September 30, 2011, related to this agreement.

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

All funds owed by the Company to Biosense Webster must be repaid on the sooner of December 31, 2011 or the date of an Accelerating Recoupment Event as defined below (the Final Payment Date). Commencing on May 15, 2010 the Company is required to make quarterly payments (the Supplemental Payments) to Biosense Webster equal to the difference between the aggregate royalty payments recouped by Biosense Webster from the Company (other than royalty amounts attributable to Biosense Webster s sales of irrigated catheters) in such quarter and $1 million, until the earlier of (1) the date all funds owed by the Company to Biosense Webster pursuant to the Amendment are fully repaid or (2) the Final Payment Date. An Accelerating Recoupment Event means any of the following: (i) the closing of any equity-based registered public financing transaction or in the event of convertible debt, the conversion of such debt into equity which raises at least $50 million for the Company; (ii) the failure of the Company to make any Supplemental Payment; or (iii) a change of control of the Company (as defined in the amendment).

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

10. Stockholders Equity

Stock Award Plans

The Company has various stock plans that permit the Company to provide incentives to employees and directors of the Company in the form of equity compensation that are described in both the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and the Company s definitive Proxy Statement on Schedule 14A filed with the SEC on April 15, 2011. At September 30, 2011, the Board of Directors had reserved a total of 6,976,670 shares of the Company s common stock to provide for current and future grants under its various equity plans.

At September 30, 2011, the total compensation cost related to options, stock appreciation rights and non-vested stock granted to employees under the Company s stock award plans but not yet recognized was approximately $5.9 million, net of estimated forfeitures of approximately $1.7 million. This cost will be amortized over a period of up to four years on a straight-line basis over the underlying estimated service periods and will be adjusted for subsequent changes in estimated forfeitures and anticipated vesting periods.

A summary of the option and stock appreciation rights activity for the nine months ended September 30, 2011 is as follows:

	Number of Options/SARs	Range of Exercise Price	Weighted Average Exercise Price per Share
Outstanding, December 31, 2010	4,711,082	$ 1.37 - $12.55	$ 5.80
Granted	1,918,250	$ 1.00 - $4.03	$ 3.44
Exercised	(4,682)	$ 1.62 - $1.62	$ 1.54
Forfeited	(913,334)	$ 1.37 - $12.03	$ 5.84
Outstanding, September 30, 2011	5,711,316	$ 1.00 - $12.55	$ 5.00

A summary of the restricted share grant activity for the nine months ended September 30, 2011 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding, December 31, 2010	33,514	$ 8.19
Granted	614,550	$ 3.45
Vested	(18,022)	$ 8.60
Forfeited	(98,840)	$ 3.73
Outstanding, September 30, 2011	531,202	$ 3.52

A summary of the restricted stock outstanding as of September 30, 2011 is as follows:

	Number of Shares
Time based restricted shares	209,002
Performance based restricted shares	322,200
Outstanding, September 30, 2011	531,202

11. Warrants Liability

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

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

In conjunction with its December 29, 2008 registered direct offering, the Company issued warrants to purchase 1,792,408 shares of the Company s common stock that contained a provision that required a reduction of the exercise price if certain equity events occurred. Under the provisions of general accounting principles for derivatives and hedging activities and determining whether an instrument (or embedded feature) is indexed to an entity s own stock, such a reset provision does not meet the exemptions for equity classification and as such, the Company accounts for these warrants as derivative instruments. The calculated fair value of the warrants is classified as a liability and is periodically remeasured with any changes in value recognized in Other income (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 $289,976 were measured at fair value on a recurring basis as of September 30, 2011 and were valued using Level 3 valuation inputs. A Black-Scholes model was used to value the Company s warrants at September 30, 2011 using the following assumptions: 1) dividend yield of 0%; 2) volatility of 65%; 3) risk-free interest rate of 0.42%; and 4) expected life of 2.75 years. The fair value of the outstanding derivative instrument and the effect on the Statement of Operations is as follows:

	Fair Value of Warrants
Balance, December 31, 2010	$ 3,541,798
Change in fair value	(3,251,822)
Balance, September 30, 2011	$ 289,976

12. Product Warranty Provisions

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

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

	September 30, 2011
Warranty accrual, December 31, 2010	$ 469,837
Warranty expense incurred	551,721
Payments made	(394,209)
Warranty accrual, September 30, 2011	$ 627,349

13. Commitments and Contingencies

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

14. Subsequent Events

The Company entered into a non-binding term sheet on October 11, 2011 with an institutional investor to raise non-equity capital. The Company expects the capital raise to be completed by November 30, 2011, satisfying the Company s obligation under the Fourth Loan Modification Agreement with Silicon Valley Bank. The term sheet is subject to customary closing conditions, including the execution of definitive agreements.

On October 31, 2011, the Company and its primary lender entered into a waiver agreement in which the lender waived testing the liquidity ratio financial covenant for the compliance period ending October 31, 2011.

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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, 2010. Operating results are not necessarily indicative of results that may occur in future periods.

This report includes various forward-looking statements that are subject to risks and uncertainties, many of which are beyond our control. Our actual results could differ materially from those anticipated in these forward looking statements as a result of various factors, including those set forth in Item 1A Risk Factors and in our Annual Report on Form 10-K for the year ended December 31, 2010. Forward-looking statements discuss matters that are not historical facts and include, but are not limited to, discussions regarding our operating strategy, sales and marketing strategy, regulatory strategy, industry, economic conditions, financial condition, liquidity and capital resources and results of operations. Such statements include, but are not limited to, statements preceded by, followed by or that otherwise include the words believes, expects, anticipates, intends, estimates, projects, can, could, may, will, would, or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not unduly rely on these forward-looking statements, which speak only as of the date on which they were made. They give our expectations regarding the future, but are not guarantees. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

Overview

Stereotaxis designs, manufactures and markets an advanced cardiology instrument control system for use in a hospital s interventional surgical suite to enhance the treatment of arrhythmias and coronary artery disease. The NIOBE® system is designed to enable physicians to complete more complex interventional procedures by providing image guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures and reduced x-ray exposure.

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

The core components of the NIOBE and the ODYSSEY systems have received regulatory clearance in the U.S., Canada, Europe, China and various other countries.

From inception to September 30, 2011, the Company has incurred losses totaling approximately $369.9 million. The Company expects such losses to continue through at least the year ended December 31, 2011. In May 2011, the Company introduced the NIOBE EPOCH Solution. Although the NIOBE EPOCH Solution is not available to customers until December 2011, it created a rapid shift away from sales of the current NIOBE II, resulting in lower System Revenue through September 30, 2011 compared to the same period in 2010. During the quarter ended September 30, 2011, the Company implemented a wide ranging plan to rebalance and reduce operating expenses by 15% to 20% on an annual run rate basis. As of September 30, 2011, the Company has completed the majority of the operating expense declines through headcount reductions and discretionary spending cuts and continues to implement processes and changes to further reduce operating expenses.

As a result of the losses incurred, cash used in operations was significantly higher than expected. In September 2011, the Company amended its agreement with its primary lender. Under the amendment, the lender waived the minimum tangible net worth covenant contained in the original agreement for the compliance period ended September 30, 2011. The amendment also reduced the availability of all credit extensions, other than the term loan, from $30 million to $20 million and increased the interest rate applicable to the term loan from the lender s prime rate plus 3.5% to the lender s prime rate plus 5.5%. Finally, the amendment established a new financial covenant which requires the Company to receive net proceeds equal to or greater than $10 million on or before November 30, 2011 from (i) the issuance by the Company of additional subordinated debt; (ii) with the prior written consent of the Bank, the sale and/or exclusive licensing of certain assets of the Company; and/or (iii) the issuance of additional equity of the Company.

The Company entered into a non-binding term sheet on October 11, 2011 with an institutional investor to raise non-equity capital. The Company expects the capital raise to be completed by November 30, 2011, satisfying the Company s obligation under its agreement with its primary lender. The term sheet is subject to customary closing conditions, including the execution of definitive agreements. See Note 9 for additional discussion of the Company s outstanding debt facilities.

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

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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, 2010.

Revenue Recognition

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

Under our revenue recognition policy, a portion of revenue for NIOBE, ODYSSEY VISION, and CINEMA 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. We may deliver systems to a non-hospital site at the customer s request. We evaluate whether delivery has occurred considering general accounting principles for revenue recognition with respect to bill and hold transactions. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue.

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

Costs of systems revenue include direct product costs, installation labor and other costs, estimated warranty costs, and initial training and product maintenance costs. These costs are recorded at the time of sale. Costs of disposable revenue include direct product costs and 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 September 30, 2011 and 2010

Revenue. Revenue decreased from $13.9 million for the three months ended September 30, 2010 to $8.5 million for the three months ended September 30, 2011, a decrease of approximately 38%. Revenue from the sale of systems decreased from $8.2 million to $2.0 million, a decrease of approximately 75%, primarily due to a decrease in the number of NIOBE systems sold. We recognized revenue on one NIOBE system and a total of $1.0 million for ODYSSEY and CINEMA systems during the 2011 period, versus five NIOBE systems and a total of $2.6 million for ODYSSEY and CINEMA systems during the 2010 period. Revenue from sales of disposable interventional devices, service and accessories increased to $6.5 million for the three months ended September 30, 2011 from $5.7 million for the three months ended September 30, 2010, an increase of approximately 14%. The increase was attributable to the increased base of installed systems, the resulting disposable sales and service contracts, as well as favorable pricing.

Cost of Revenue. Cost of revenue decreased from $3.9 million for the three months ended September 30, 2010 to $2.7 million for the three months ended September 30, 2011, a decrease of approximately 31%. Cost of revenue for systems sold decreased from $3.1 million for the three months ended September 30, 2010 to $1.7 million for the three months ended September 30, 2011, a decrease of approximately 44%. This decrease was primarily due to a decrease in the number of NIOBE and ODYSSEY systems sold. Cost of revenue for disposables, service and accessories increased from $0.8 million for the three months ended September 30, 2010 to $0.9 million for the three months ended September 30, 2011, an increase of approximately 22%. As a percentage of our total revenue, overall gross margin decreased to 69% for the three months ended September 30, 2011 from 72% for the three months ended September 30, 2010. This decrease is primarily related to a charge related to the absorption of overhead costs based on normal production levels during the quarter. Gross margin for systems was 15% for the three months ended September 30, 2011 compared to 62% for the three months ended September 30, 2010. The decrease was related to the charge related to the absorption of overhead costs as well as a change in product mix from NIOBE to ODYSSEY systems. Gross margin for disposables, service and accessories was 86% for the current quarter compared to 87% for the three months ended September 30, 2010 due to higher costs associated with software upgrades in 2011 compared to 2010.

Research and Development Expenses. Research and development expenses increased from $2.9 million for the three months ended September 30, 2010 to $3.5 million for the three months ended September 30, 2011, an increase of approximately 23%. The increase is primarily due to increased expenses related to the development of the NIOBE EPOCH Solution and ODYSSEY upgrades.

Sales and Marketing Expenses. Sales and marketing expenses decreased from $7.3 million for the three months ended September 30, 2010 to $6.9 million for the three months ended September 30, 2011, a decrease of approximately 5%. The decrease was primarily due to reduced headcount expenses as part of the Company s efforts to reduce operating expenses.

General and Administrative Expenses. General and administrative expenses include regulatory, clinical, general management and training expenses. General and administrative expenses increased to $4.5 million from $3.5 million for the three months ended September 30, 2011 and

2010, respectively, an increase of approximately 30%. The increase was primarily due to foreign currency effects coupled with increased spending on registrations in Japan as our products approach the end of clinical trials.

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

Interest Income. Interest income remained consistent at less than $0.1 million for the three months ended September 30, 2011 and 2010.

Interest Expense. Interest expense increased to $0.8 million for the three months ended September 30, 2011 from $0.6 million for the three months ended September 30, 2010, primarily due to higher average debt balances outstanding.

Comparison of the Nine Months Ended September 30, 2011 and 2010

Revenue. Revenue decreased from $39.5 million for the nine months ended September 30, 2010 to $30.4 million for the nine months ended September 30, 2011, a decrease of approximately 23%. Revenue from the sale of systems decreased from $22.8 million to $11.4 million, a decrease of approximately 50%, primarily due to a decrease in the number of NIOBE systems sold. We recognized revenue on five NIOBE systems and a total of $5.3 million for ODYSSEY systems during the 2011 period, versus sixteen NIOBE systems and a total of $6.0 million for ODYSSEY systems during the 2010 period. Revenue from sales of disposable interventional devices, service and accessories increased to $19.0 million for the nine months ended September 30, 2011 from $16.7 million for the nine months ended September 30, 2010, an increase of approximately 14%. The increase was attributable to the increased base of installed systems, the resulting disposable sales and service contracts, as well as favorable pricing.

Cost of Revenue. Cost of revenue decreased from $11.7 million for the nine months ended September 30, 2010 to $9.2 million for the nine months ended September 30, 2011, a decrease of approximately 22%. As a percentage of our total revenue, overall gross margin remained consistent at 70% for the nine months ended September 30, 2010 and 2011. Cost of revenue for systems sold decreased from $9.5 million for the nine months ended September 30, 2010 to $6.4 million for the nine months ended September 30, 2011, a decrease of approximately 32%, primarily due to the decrease in the number of NIOBE systems sold. Gross margin for systems was 43% for the nine months ended September 30, 2011 compared to 58% for the nine months ended September 30, 2010. The decrease was primarily related to a charge related to the absorption of overhead costs based on normal production levels during the quarter ended September 30, 2011. Cost of revenue for disposables, service and accessories increased to $2.7 million during the 2011 period from $2.2 million during the 2010 period, resulting in a decrease in gross margin to 86% from 87% between these periods. This decrease in cost of revenue was primarily due to higher costs associated with software upgrades in 2011 compared to 2010.

Research and Development Expenses. Research and development expenses increased from $9.6 million for the nine months ended September 30, 2010 to $10.2 million for the nine months ended September 30, 2011, an increase of approximately 7%. The increase is primarily due to increased expenditures related to development of the NIOBE EPOCH Solution and ODYSSEY upgrades.

Sales and Marketing Expenses. Sales and marketing expenses increased from $22.4 million for the nine months ended September 30, 2010 to $24.9 million for the nine months ended September 30, 2011, an increase of approximately 11%. The increase was primarily due to a rise in headcount to support higher utilization rates worldwide as well as increased marketing costs related to the launch of the NIOBE EPOCH Solution. Although headcount was reduced during the quarter ended September 30, 2011, as part of the Company s efforts to reduce operating expenses, the year-to-date headcount expense was higher in 2011 than in the same period in 2010.

General and Administrative Expenses. General and administrative expenses include regulatory, clinical, general management and training expenses. General and administrative expenses increased to $13.4 million from $11.3 million for the nine months ended September 30, 2011 and 2010, respectively, an increase of approximately 18%. This increase was primarily due to increased headcount and customer training programs to drive utilization, increased consulting costs, and higher spending on registrations in Japan as our products approach the end of clinical trials.

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

Interest Income. Interest income remained consistent at less than $0.1 million for the nine months ended September 30, 2011 and 2010.

Interest Expense. Interest expense increased to $2.4 million for the nine months ended September 30, 2011 from $2.0 million for the nine months ended September 30, 2010, primarily due to higher average debt balances outstanding.

Liquidity and Capital Resources

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents. At September 30, 2011 we had $17.0 million of cash and equivalents. We had a working capital deficit of approximately $19.9 million as of September 30, 2011 and working capital of $12.4 million as of December 31, 2010, respectively. The decrease in working capital is due principally to the $26.5 million net loss for the first nine months of 2011.

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The following table summarizes our cash flow by operating, investing and financing activities for each of nine month periods ended September 30, 2011 and 2010 (in thousands):

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash Flow used in Operating Activities	$ (19,959)	$ (14,085)
Cash Flow used in Investing Activities	$ (973)	$ (606)
Cash Flow provided by Financing Activities	$ 2,663	$ 5,936

Net cash used in operating activities. We used approximately $20.0 million and $14.1 million of cash for operating activities during the nine months ended September 30, 2011 and 2010, respectively. This increase was primarily driven by an increase in the net loss of $9.1 million coupled with cash used from the change in accounts payable of $4.7 million partially offset by cash generated from the change in accounts receivable of $9.1 million.

Net cash used in investing activities. We used approximately $1.0 million of cash for purchases of equipment for the nine month period ended September 30, 2011 compared to $0.6 million for the nine month period ended September 30, 2010. The increase was driven by higher expenditures in 2011 for equipment related to new product development as well as equipment used for trade shows.

Net cash provided by financing activities. We generated approximately $2.7 million of cash for the nine month period ended September 30, 2011 compared $5.9 million generated for the nine month period ended September 30, 2010. This decrease in cash generated was primarily due to payments under our agreement with Biosense Webster.

Borrowing facilities

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

In September 2011, the Company amended its agreement with its primary lender. Pursuant to the amendment, the lender waived the minimum tangible net worth financial covenant contained in the original agreement for the compliance period ended September 30, 2011. The Company was in compliance with the liquidity ratio covenant for this period. The amendment also reduced the availability amount of all credit extensions, other than the term loan, from $30 million to $20 million, and modified the interest rate applicable to the term loan from the lender s prime rate plus 3.5% to the lender s prime rate plus 5.5%. Additionally, the amendment provides for a new financial covenant that, on or before November 30, 2011, the Company must receive net proceeds in an amount equal to or greater than $10 million from (i) the issuance by the Company of additional subordinated debt; (ii) with the prior written consent of the lender, the sale and/or exclusive licensing of certain assets of the Company; and/or (iii) the issuance of additional equity of the Company.

As of September 30, 2011, the Company had $16.9 million outstanding under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one month in arrears. As of August 31, 2011, the Company had a borrowing capacity of $17.0 million based on the Company s collateralized assets, including amounts already drawn. As such, the Company had the ability to borrow an additional $0.1 million under the revolving line of credit at September 30, 2011. As of September 30, 2011, the Company had no remaining availability on its Lender loan and guarantee.

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

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 accrues at the rate of prime plus 3.5%. Under this agreement, the Company provided its primary lender with warrants to purchase 111,111 shares of common stock. The warrants are exercisable at $3.60 per share, beginning on December 17, 2010 and expiring on December 17, 2015. The fair value of these warrants of $228,332, calculated using the Black Scholes method, will be deferred and amortized to interest expense ratably over the life of the term loan.

Under the September 2011 amendment of the loan agreement, the interest rate on the term loan was increased to prime plus 5.5%. In the event that the covenants of the loan agreement are not met, the primary lender could call the Company s outstanding debt. Under ASC 470 Debt, callable obligations are classified as current unless the creditor waives the right to call the debt for a period of more than one year or it is probable that the violation will be cured within the grace period provided by the lender. Because the lender waived the tangible net worth covenant only for the quarter ended September 30, 2011 and without a future capital transaction, the Company does not expect to cure the violation prior to December 31, 2011, the entire term note is classified as short-term debt as of September 30, 2011.

In July 2008, the Company and Biosense Webster entered into an amendment to their existing agreements relating to the development and sale of catheters. Pursuant to the amendment, Biosense Webster agreed to pay to the Company $10.0 million as an advance on royalty amounts that were owed at the time the amendment was executed or would be owed in the future by Biosense Webster to the Company pursuant to the royalty provisions of one of the existing agreements. The Company and Biosense Webster also agreed that an aggregate of up to $8.0 million of certain agreed upon research and development expenses that were owed at the time the amendment was executed or may be owed in the future by the Company to Biosense Webster pursuant to the existing agreement would be deferred and will be due, together with any unrecouped portion of the $10.0 million royalty advance, on the Final Payment Date (as defined below). Interest on the outstanding and unrecouped amounts of the royalty advance and deferred research and development expenses will accrue at an interest rate of the prime rate plus 0.75%. Outstanding royalty advances and deferred research and development expenses and accrued interest thereon will be recouped by Biosense Webster by deductions from royalty amounts otherwise owed to the Company from Biosense Webster pursuant to the existing agreement. The Company has the right to prepay any amounts due pursuant to the Amendment at any time without penalty. Approximately $18.0 million had been advanced by Biosense Webster to the Company pursuant to the amendment. As of September 30, 2011, $12.4 million of royalty payments owed by Biosense and $4.5 million in supplemental payments had been used to reduce the advances together with the accrued interest thereon and the remaining approximately $3.1 million of amounts owed to Biosense Webster has been classified as short-term debt in the accompanying balance sheet. The Company recorded interest expense of $0.1 million and $0.2 million and disposables, service and accessories revenue of $0.8 million and $2.6 million for the three and nine months ended September 30, 2011, related to this agreement.

All funds owed by the Company to Biosense Webster must be repaid on the sooner of December 31, 2011 or the date of an Accelerating Recoupment Event as defined below (the Final Payment Date). Commencing on May 15, 2010 the Company is required to make quarterly payments (the Supplemental Payments) to Biosense Webster equal to the difference between the aggregate royalty payments recouped by Biosense Webster from the Company (other than royalty amounts attributable to Biosense Webster s sales of irrigated catheters) in such quarter and $1 million, until the earlier of (1) the date all funds owed by the Company to Biosense Webster pursuant to the Amendment are fully repaid or (2) the Final Payment Date. An Accelerating Recoupment Event means any of the following: (i) the closing of any equity-based registered public financing transaction or in the event of convertible debt, the conversion of such debt into equity which raises at least $50 million for the Company; (ii) the failure of the Company to make any Supplemental Payment; or (iii) a change of control of the Company (as defined in the amendment).

Cash flow

We expect to have negative cash flow from operations in 2011. In 2011, we expect to continue the development and commercialization of our existing products and, to a lesser extent, our research and development programs and the advancement of new products into clinical development. We expect that our sales and marketing expenditures and our general and administrative expenses will increase in 2011 in order to support our product commercialization efforts. During a recent review of our backlog, we identified certain commitments in backlog in which ultimate revenue recognition is uncertain due to factors including the migration from Niobe II to Niobe ES. As a result, we have removed systems from our backlog which could negatively impact future revenue. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with existing cash resources that were primarily generated from the proceeds of our public offerings, private sales of our equity securities and working capital and equipment financing loans. In the future, we may finance future cash needs through the sale of other equity securities, strategic collaboration agreements and debt financings. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors outside of our control.

As currently structured, the $20 million working capital facility with our primary lender as well as the financing commitment provided by the Lenders expires on March 31, 2012. However, we are currently in discussions with our primary lender regarding renewing our existing debt facility. We cannot assure that our existing cash, cash equivalents and borrowing facilities will be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months. In the event that we do not renew or modify the terms of our existing debt facility, or raise the additional capital specified by current debt covenants, it is probable that we will not meet all covenants of our bank loan agreement as of November 30, 2011. In the event that our covenants are not met, it is possible that our primary lender could call our outstanding debt. We also cannot assure that additional financing will be available on a timely basis on terms acceptable to us or at all, 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.

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Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

We operate mainly in the U.S., Europe and Asia and we expect to continue to sell our products both within and outside of the U.S. Although the majority of our revenue and expenses are transacted in U.S. dollars, a portion of our activities are conducted in Euros and to a lesser extent, in other currencies. As such, we have foreign exchange exposure with respect to non-U.S. dollar revenues and expenses as well as cash balances, accounts receivable and accounts payable balances denominated in non-US dollar currencies. Our international activities are subject to risks typical of international activities, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Future fluctuations in the value of these currencies may affect the price competitiveness of our products. In addition, because we have a relatively long installation cycle for our systems, we will be subject to risk of currency fluctuations between the time we execute a purchase order and the time we deliver the system and collect payments under the order, which could adversely affect our operating margins. As of September 30, 2011 we have not hedged exposures in foreign currencies or entered into any other derivative instruments.

For the nine months ended September 30, 2011, sales denominated in foreign currencies were approximately 16% of total revenue and as such, our revenue would have decreased by approximately $0.5 million if the U.S. dollar exchange rate used would have strengthened by 10%. For the nine months ended September 30, 2011, expenses denominated in foreign currencies were approximately 11% of our total expenses and as such, our operating expenses would have decreased by approximately $0.5 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 September 30, 2011 would have decreased the carrying amounts of those net assets by approximately $0.1 million.

Interest Rate Risk

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

We have exposure to market risk related to any investments we might hold. Market liquidity issues might make it impossible for the Company to liquidate its holdings or require that the Company sell the securities at a substantial loss. As of September 30, 2011, the Company did not hold any investments.

We have exposure to interest rate risk related to our borrowings as the interest rates for certain of our outstanding loans are subject to increase should the interest rate increase above a defined percentage. Because certain of our outstanding debt is subject to minimum interest rates ranging from 5.75% to 7.0%, a hypothetical increase in interest rates of 100 basis points would have resulted in a less than $0.1 million increase in interest expense for the quarter ended September 30, 2011.

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.

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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.

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STEREOTAXIS, INC.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 7, 2011, a purported class action complaint was filed against the Company, Michael P. Kaminski and Daniel J. Johnston in the U.S. District Court for the Eastern District of Missouri by Kevin Pound, a purported shareholder of the Company. The complaint alleges that, during the period from February 28, 2011 through August 9, 2011, the Company and certain of its officers made materially false and misleading statements regarding the Company s financial condition and future business prospects, in violation of sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The complaint seeks unspecified damages, costs, attorneys fees and equitable/injunctive relief. The Company has not yet formally responded to the complaint. Based on an initial review of the complaint, the Company believes the complaint is without merit and intends to vigorously defend against it. However, litigation is inherently uncertain and it is too early in this proceeding to predict the outcome of this lawsuit or to reasonably estimate possible losses, if any, related thereto. As is typical in this type of litigation, additional complaints containing substantially similar allegations may be filed in the future. 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.

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

ITEM 1A. RISK FACTORS

Our Risk Factors are discussed in our Annual Report on Form 10-K for the year ended December 31, 2010.

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: November 8, 2011	By:	/s/ MICHAEL P. KAMINSKI **Michael P. Kaminski,** **Chief Executive Officer**
Date: November 8, 2011	By:	/s/ SAMUEL W. DUGGAN II **Samuel W. Duggan II,** **Chief Financial Officer**

EXHIBIT INDEX

Number	Description
3.1(1)	Restated Certificate of Incorporation of the Company
3.2(1)	Restated Bylaws of the Company
10.1	Fourth Loan Modification Agreement (Domestic), between the Company and Silicon Valley Bank, dated September 30, 2011, incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K (File No. 000-50884) filed on October 4, 2011.
10.2	Export-Import Bank Loan and Security Agreement, dated September 30, 2011, among the Company, Stereotaxis International, Inc., and Silicon Valley Bank, incorporated by reference to Exhibit 10.2 of the Registrant s Form 8-K (File No. 000-50884) filed on October 4, 2011.
31.1	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
31.2	Rule 13a-14(a)/15d-14(a) Certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).
32.1	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Executive Officer).
32.2	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Chief Financial Officer).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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