

Stereotaxis, Inc.
Form 10-Q
May 07, 2015
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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 March 31, 2015

.. **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 Regulation 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, 2015 was 20,975,313.

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STEREOTAXIS, INC.

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| | March 31, 2015 (Unaudited) | December 31, 2014 |
|--|---|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,438,533 | \$ 7,270,301 |
| Accounts receivable, net of allowance of \$131,898 and \$131,464 in 2015 and 2014, respectively | 7,736,618 | 6,480,499 |
| Inventories | 6,376,082 | 6,371,903 |
| Prepaid expenses and other current assets | 946,819 | 1,094,837 |
| Total current assets | 19,498,052 | 21,217,540 |
| Property and equipment, net | 876,882 | 894,728 |
| Intangible assets, net | 1,304,694 | 1,379,653 |
| Other assets | 352,867 | 388,850 |
| Total assets | \$ 22,032,495 | \$ 23,880,771 |
| Liabilities and stockholders deficit | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,603,628 | \$ 2,353,133 |
| Accrued liabilities | 5,241,921 | 5,505,142 |
| Deferred revenue | 6,318,529 | 6,658,170 |
| Warrants | 3,026,564 | 2,134,187 |
| Total current liabilities | 17,190,642 | 16,650,632 |
| Long-term debt, less current maturities | 18,319,895 | 18,388,764 |
| Long-term deferred revenue | 963,356 | 976,165 |
| Other liabilities | 339,246 | 414,928 |
| Stockholders deficit: | | |
| Preferred stock, par value \$0.001; 10,000,000 shares authorized, none outstanding at 2015 and 2014 | | |
| Common stock, par value \$0.001; 300,000,000 shares authorized, 20,911,838 and 20,480,874 shares issued at 2015 and 2014, respectively | 20,912 | 20,481 |
| Additional paid in capital | 447,145,927 | 446,241,703 |
| Treasury stock, 4,015 shares at 2015 and 2014 | (205,999) | (205,999) |
| Accumulated deficit | (461,741,484) | (458,605,903) |
| Total stockholders deficit | (14,780,644) | (12,549,718) |
| Total liabilities and stockholders deficit | \$ 22,032,495 | \$ 23,880,771 |

See accompanying notes.

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STEREOTAXIS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | |
|--|---------------------------|----------------|
| | March 31, | |
| | 2015 | 2014 |
| Revenue: | | |
| Systems | \$ 2,831,178 | \$ 1,334,854 |
| Disposables, service and accessories | 6,699,848 | 7,019,816 |
| Total revenue | 9,531,026 | 8,354,670 |
| Cost of revenue: | | |
| Systems | 1,400,267 | 559,428 |
| Disposables, service and accessories | 1,230,370 | 1,059,658 |
| Total cost of revenue | 2,630,637 | 1,619,086 |
| Gross margin | 6,900,389 | 6,735,584 |
| Operating expenses: | | |
| Research and development | 1,485,706 | 1,503,446 |
| Sales and marketing | 4,034,371 | 3,631,264 |
| General and administrative | 2,794,590 | 3,829,866 |
| Total operating expenses | 8,314,667 | 8,964,576 |
| Operating loss | (1,414,278) | (2,228,992) |
| Other expense | (892,377) | (1,076,139) |
| Interest income | 862 | 2,233 |
| Interest expense | (829,788) | (836,950) |
| Net loss | \$ (3,135,581) | \$ (4,139,848) |
| Net loss per common share: | | |
| Basic | \$ (0.15) | \$ (0.21) |
| Diluted | \$ (0.15) | \$ (0.21) |
| Weighted average shares used in computing net loss per common share: | | |
| Basic | 20,742,932 | 19,403,325 |
| Diluted | 20,742,932 | 19,403,325 |

See accompanying notes.

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STEREOTAXIS, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

| | Three Months Ended March 31, | |
|---|-------------------------------------|----------------|
| | 2015 | 2014 |
| Cash flows from operating activities | | |
| Net loss | \$ (3,135,581) | \$ (4,139,848) |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Depreciation | 70,256 | 136,663 |
| Amortization of intangibles | 74,959 | 74,958 |
| Amortization of deferred finance costs | 55,793 | 70,122 |
| Share-based compensation | 326,444 | 307,992 |
| Adjustment of warrants | 892,377 | 1,076,139 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,256,119) | (768,628) |
| Inventories | (4,179) | (694,085) |
| Prepaid expenses and other current assets | 92,225 | (53,993) |
| Other assets | 35,983 | (62) |
| Accounts payable | 250,495 | (357,303) |
| Accrued liabilities | (263,221) | 725,025 |
| Deferred revenue | (352,450) | 1,244,840 |
| Other liabilities | (75,682) | |
| Net cash used in operating activities | (3,288,700) | (2,378,180) |
| Cash flows from investing activities | | |
| Purchase of equipment | (52,410) | |
| Net cash used in investing activities | (52,410) | |
| Cash flows from financing activities | | |
| Payments of Healthcare Royalty Partners debt | (68,869) | (38,592) |
| Proceeds from issuance of stock, net of issuance costs | 578,211 | (56,514) |
| Net cash provided (used) by financing activities | 509,342 | (95,106) |
| Net increase (decrease) in cash and cash equivalents | (2,831,768) | (2,473,286) |
| Cash and cash equivalents at beginning of period | 7,270,301 | 13,775,130 |
| Cash and cash equivalents at end of period | \$ 4,438,533 | \$ 11,301,844 |

See accompanying notes.

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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-CAS Deflect, 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 Magnetic Navigation System (Niobe ES system), Odyssey Information Management Solution (Odyssey Solution), and the Vdrive® Robotic Navigation System (Vdrive system), and related devices.

The Niobe ES 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 ES system and its components, Stereotaxis has also developed the Odyssey Solution, which consolidates all lab information enabling doctors to focus on the patient for optimal procedure efficiency. The platform also features a remote viewing and recording capability called the Odyssey Cinema system, an innovative system 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's 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. It 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 the warranty period, and software licenses. In hospitals where the full Epoch Solution has not been implemented, equipment upgrade or expansion may be implemented upon purchase of the necessary components. As of March 31, 2015, the Company has an installed base of 124 Niobe ES systems.

The core components of Stereotaxis systems have received regulatory clearance in the U.S., European Union, Canada, China, Japan and various other countries. We have received the CE Mark that allows us to market the *Vdrive* and *Vdrive Duo* systems with the *V-CAS*, *V-CAS Deflect*, *V-Loop* and *V-Sono* devices in Europe. In addition, we have received licensing to market the *Vdrive* and *Vdrive Duo* systems with the *V-CAS*, *V-CAS Deflect*, *V-Loop* and *V-Sono* devices in Canada. We have received regulatory clearance that allows us to market the *Vdrive* and *Vdrive Duo* systems with the *V-CAS*, *V-Loop*, and *V-Sono* devices in the United States. We have received Food and Drug Administration (FDA) clearance and the CE Mark necessary for us to market our suite of Pegasus coronary peripheral guidewires in the U.S. and Europe.

Since our inception, we have generated significant losses. As of March 31, 2015, we incurred cumulative net losses of approximately \$461.7 million. In 2015, the Company plans to continue developing the *Niobe* ES system with the goal of furthering clinical adoption. Although we achieved an operating profit in the fourth quarter 2014, we expect to have negative cash flow from operations into 2015 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund additional sales and marketing initiatives. During 2015, we expect operating expenses to be generally consistent with 2014 with additional investment in certain targeted areas.

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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 loans collateralized by working capital and equipment. 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 acceptable terms, 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 operational results. 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, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015 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, 2014 as filed with the Securities and Exchange Commission (SEC) on March 16, 2015.

Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and debt. The carrying value of such amounts reported at the applicable balance sheet dates approximates fair value. See Note 9 for disclosure of the fair value of debt.

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.

Revenue and Costs of Revenue

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

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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 Earnings (Loss) per Common Share (EPS)

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

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

| | Three months ended March 31, | |
|---|-------------------------------------|----------------|
| | 2015 | 2014 |
| Numerator: | | |
| Numerator for basic EPS | \$ (3,135,581) | \$ (4,139,848) |
| Numerator for diluted EPS | \$ (3,135,581) | \$ (4,139,848) |
| Denominator: | | |
| Denominator for basic EPS weighted average shares | 20,742,932 | 19,403,325 |
| Denominator for diluted EPS | 20,742,932 | 19,403,325 |
| Basic EPS | \$ (0.15) | \$ (0.21) |
| Diluted EPS | \$ (0.15) | \$ (0.21) |

In addition, the Company did not include any portion of unearned restricted shares, outstanding options, stock appreciation rights or warrants in the calculation of diluted loss per common share because all such securities are anti-dilutive for the three months ended March 31, 2015 and the three months ended March 31, 2014. 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, 2015, the Company had 717,916 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$11.52 per share, 2,131,476 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$4.99 per share, and 799,601 shares of unvested restricted share units. The Company had no unearned restricted shares outstanding for the three months ended March 31, 2015.

Recently Issued Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU or Update) No. 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs . To simplify the presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount. The Standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued. We are currently evaluating the impact of adopting this accounting standard update on our financial statements and disclosures and have not concluded on an adoption method.

In August 2014, the FASB issued ASU No. 2014-15, to communicate amendments to FASB Account Standards Codification Subtopic 205-40, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern . The ASU requires management to evaluate relevant conditions, events and certain management plans that are known or reasonably knowable as of the evaluation date when determining whether substantial doubt about an entity's ability to continue as a going concern exists. Management will be required to make this evaluation for both annual and

interim reporting periods. Management will have to make certain disclosures if it concludes that substantial doubt exists or when it plans to alleviate substantial doubt about the entity's ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016 and for interim reporting periods starting in the first quarter of 2017. Early adoption is permitted. We are currently evaluating the impact of adopting this accounting standard update on our financial statement disclosures and have not concluded on an adoption method.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" which converges the FASB's and the International Accounting Standards Board's current standards on revenue recognition. The standard provides companies with a single model to use in accounting for revenue arising from contracts with customers and supersedes current revenue guidance. The standard is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. The standard permits companies to either apply the adoption to all periods presented, or apply the requirements in the year of adoption through a cumulative adjustment. In April 2015, the FASB issued an exposure draft related to the deferral of the effective date, which would delay our effective date one year. Therefore, the standard would be effective for annual and interim periods beginning after December 15, 2017. We are currently evaluating the impact of adopting this accounting standard update on our financial statements and disclosures and have not concluded on an adoption method.

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Inventories consist of the following:

| | March 31, 2015 | December 31, 2014 |
|--------------------------|-----------------------|--------------------------|
| Raw materials | \$ 2,868,672 | \$ 2,746,926 |
| Work in process | 428,192 | 374,236 |
| Finished goods | 3,099,258 | 3,310,375 |
| Reserve for obsolescence | (20,040) | (59,634) |
| Total inventories | \$ 6,376,082 | \$ 6,371,903 |

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

| | March 31, 2015 | December 31, 2014 |
|---|-----------------------|--------------------------|
| Prepaid expenses | \$ 540,134 | \$ 679,740 |
| Deferred financing costs | 436,593 | 492,385 |
| Deposits | 322,959 | 311,562 |
| Total prepaid expenses and other assets | 1,299,686 | 1,483,687 |
| Less: Noncurrent prepaid expenses and other assets | (352,867) | (388,850) |
| Total prepaid expenses and other current assets | \$ 946,819 | \$ 1,094,837 |

Certain prior year amounts have been reclassified to conform to the 2015 presentation.

5. Property and Equipment

Property and equipment consist of the following:

| | March 31, 2015 | December 31, 2014 |
|---------------------------------------|---------------------------|--------------------------|
| Equipment | \$ 8,317,214 | \$ 8,264,804 |
| Equipment held for lease | 303,412 | 303,412 |
| Leasehold improvements | 2,328,381 | 2,328,381 |
| | 10,949,007 | 10,896,597 |
| Less: Accumulated depreciation | (10,072,125) | (10,001,869) |

| | | | | |
|----------------------------|----|---------|----|---------|
| Net property and equipment | \$ | 876,882 | \$ | 894,728 |
|----------------------------|----|---------|----|---------|

6. Intangible Assets

As of March 31, 2015, the Company had total intangible assets of \$3,665,000. Accumulated amortization at March 31, 2015, was \$2,360,306.

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Accrued liabilities consist of the following:

| | March 31, 2015 | December 31, 2014 |
|---------------------------------------|---------------------------|------------------------------|
| Accrued salaries, bonus, and benefits | \$ 2,164,991 | \$ 2,557,557 |
| Accrued rent | 1,400,828 | 1,407,740 |
| Accrued licenses and maintenance fees | 660,743 | 661,766 |
| Accrued interest | 491,768 | 493,616 |
| Accrued warranties | 334,873 | 364,548 |
| Accrued taxes | 345,406 | 332,364 |
| Other | 182,558 | 102,479 |
| | | |
| Total accrued liabilities | 5,581,167 | 5,920,070 |
| Less: Long term accrued liabilities | (339,246) | (414,928) |
| | | |
| Total current accrued liabilities | \$ 5,241,921 | \$ 5,505,142 |

Certain prior year amounts have been reclassified to conform to the 2015 presentation.

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, 2015, the remaining accrued costs associated with the termination were \$337,208.

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Deferred revenue consists of the following:

| | March 31, 2015 | December 31, 2014 |
|-----------------------------------|---------------------------|------------------------------|
| Product shipped, revenue deferred | \$ 823,977 | \$ 457,348 |
| Customer deposits | 40,256 | 1,065,371 |
| Deferred service and license fees | 6,417,652 | 6,111,616 |
| | 7,281,885 | 7,634,335 |
| Less: Long-term deferred revenue | (963,356) | (976,165) |
| Total current deferred revenue | \$ 6,318,529 | \$ 6,658,170 |

9. Long-Term Debt and Credit Facilities

Debt outstanding consists of the following:

| | March 31, 2015 | | December 31, 2014 | |
|----------------------------------|-----------------------|-------------------------|--------------------------|-------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Healthcare Royalty Partners debt | \$ 18,319,895 | 18,319,895 | \$ 18,388,764 | 18,388,764 |
| Total debt | 18,319,895 | 18,319,895 | 18,388,764 | 18,388,764 |
| Less current maturities | | | | |
| Total long term debt | \$ 18,319,895 | \$ 18,319,895 | \$ 18,388,764 | \$ 18,388,764 |

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, 2015 and December 31, 2014. Long-term debt fair value estimates are based on estimated borrowing rates to discount the cash flows to their present value (Level 3).

Table of Contents***Revolving Line of Credit***

The Company has had a working capital line of credit with its primary lender, Silicon Valley Bank, since 2004. The revolving line of credit is secured by substantially all of the Company's assets. The maximum available under the line is \$10 million subject to the value of collateralized assets. The Company is 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 its primary lender. The facility was last amended on March 27, 2015, extending the maturity date to March 31, 2018. The current agreement requires the Company to maintain a liquidity ratio greater than 1.50:1.00, excluding certain short term advances from the calculation, and a minimum tangible net worth of not less than (no worse than) negative \$21.5 million for the quarters ended March 31, 2015, June 30, 2015, and September 30, 2015; not less than (no worse than) negative \$22.5 million for the quarters ended December 31, 2015, March 31, 2016, June 30, 2016, and September 30, 2016; not less than (no worse than) negative \$23.5 million for the quarters ended December 31, 2016, March 31, 2017, June 30, 2017, and September 30, 2017; and not less than (no worse than) negative \$24.5 million for the quarters ended December 31, 2017 and March 31, 2018.

As of March 31, 2015, 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, 2015, the Company had a borrowing capacity of \$6.5 million based on the Company's collateralized assets.

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* ES 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* ES 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* ES 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* ES 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.

10. Stockholders' Equity

The holders of common stock are entitled to 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 line of credit agreement. Since the Company's inception, no dividends have been declared or paid.

Controlled Equity Offering

The Company entered into a Controlled Equity OfferingSM sales agreement (the Sales Agreement) in May 2014, as amended on March 26, 2015, with Cantor Fitzgerald & Co. (Cantor), as agent and/or principal, pursuant to which the Company could issue and sell, from time to time, shares of its common stock having an aggregate gross sales price of up to \$18.0 million. The Company will pay Cantor a commission of 3.0% of the gross proceeds from any common stock sold through the Sales Agreement.

During the three months ended March 31, 2015, the Company sold an aggregate of 311,222 shares of common stock under the Sales Agreement, at an average price of approximately \$2.02 per share for gross proceeds of \$629,505 and net proceeds of \$610,620, after deducting Cantor's commission. As of March 31, 2015, \$14.2 million of common stock remained available to be sold under this facility, subject to certain conditions as specified in the Sales Agreement.

Table of Contents**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 Plan) which was subsequently approved by the Company's shareholders. This plan replaced the 2002 Stock Incentive Plan which expired on March 25, 2012.

On June 5, 2013 and on June 10, 2014, the shareholders approved amendments to the Plan, which were previously approved and adopted by the Compensation Committee of the Board of Directors of the Company. Each of these amendments increased the number of shares authorized for issuance under the Plan by one million shares. At March 31, 2015, the Company had 836,839 remaining shares of the Company's common stock to provide for current and future grants under its various equity plans.

At March 31, 2015, 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 \$2.2 million, net of estimated forfeitures of approximately \$1.5 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, 2015 is as follows:

| | Number of Options/SARs | Range of Exercise Price | Weighted Average Exercise Price per Share |
|--------------------------------|---------------------------|----------------------------|--|
| Outstanding, December 31, 2014 | 487,146 | \$1.69 - \$116.40 | \$ 17.21 |
| Granted | 280,850 | 2.15 | \$ 2.15 |
| Exercised | | | |
| Forfeited | (50,080) | \$2.15 - \$91.90 | \$ 14.33 |
| Outstanding, March 31, 2015 | 717,916 | \$1.69 - \$116.40 | \$ 11.52 |

As of March 31, 2015, there were no restricted shares outstanding.

A summary of the restricted stock unit activity for the three month period ended March 31, 2015 is as follows:

| | Number of Restricted Shares Units | Weighted Average Grant Date Fair Value per Unit |
|--------------------------------|--------------------------------------|---|
| Outstanding, December 31, 2014 | 697,751 | \$ 3.14 |
| Granted | 277,700 | \$ 2.16 |
| Vested | (117,050) | \$ 3.49 |
| Forfeited | (58,800) | \$ 2.81 |

| | | | |
|-----------------------------|---------|----|------|
| Outstanding, March 31, 2015 | 799,601 | \$ | 2.77 |
|-----------------------------|---------|----|------|

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.

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

| | Total | Fair Value Measurement Using Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|---------------------|---|--|--|
| Assets at March 31, 2015: | | | | |
| Cash equivalents | \$ 2,001,545 | 2,001,545 | | |
| Total assets at fair value | \$ 2,001,545 | 2,001,545 | | |
| Liabilities at March 31, 2015: | | | | |
| Warrants issued May 10, 2012 | 1,037,294 | | | 1,037,294 |
| Warrants issued August 2013 | 1,989,270 | | | 1,989,270 |
| Total liabilities at fair value: | \$ 3,026,564 | | | 3,026,564 |
| Assets at December 31, 2014: | | | | |
| Cash equivalents | \$ 5,361,053 | 5,361,053 | | |
| Total assets at fair value | \$ 5,361,053 | 5,361,053 | | |
| Liabilities at December 31, 2014: | | | | |
| Warrants issued May 10, 2012 | \$ 728,712 | | | 728,712 |
| Warrants issued August 2013 | 1,405,475 | | | 1,405,475 |
| Total liabilities at fair value: | \$ 2,134,187 | | | 2,134,187 |

Level 1

The Company's financial assets consist of cash equivalents invested in money market funds in the amount of \$2,001,545 and \$5,361,053 at March 31, 2015 and December 31, 2014, 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, 2015, and March 31, 2014. There were no transfers in or out of Level 1 during the period ended March 31, 2015.

Level 2

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

Level 3

In conjunction with the Company's May 2012 and August 2013 financing transactions, the Company issued warrants to purchase shares of the Company's common stock. Due to the provisions included in the warrant agreements, the warrants did 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 re-measured with any changes in value recognized in Other expense in the Statements of Operations.

The remaining warrants from the May 2012 transaction expire in May 2018 and were revalued as of March 31, 2015 using the following assumptions: 1) volatility of 170.85%; 2) risk-free interest rate of 0.89%; and 3) a closing stock price of \$2.05.

The remaining warrants from the August 2013 expire in November 2018 and were revalued as of March 31, 2015 using the following assumptions: 1) volatility of 161.52%; 2) risk-free interest rate of 0.89%; and 3) a closing stock price of \$2.05.

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 significantly higher (lower) liability fair value measurements.

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The following table sets forth a summary of changes in the fair value of the Company's Level 3 financial liabilities for the three month period ended March 31, 2015:

| | Warrants issued May 2012 | | Warrants issued August 2013 | | Total Liabilities |
|--------------------------------|--------------------------|-----------|-----------------------------|-----------|-------------------|
| | | 2012 | | 2013 | |
| Balance at beginning of period | \$ | 728,712 | \$ | 1,405,475 | \$ 2,134,187 |
| Settlements | | | | | |
| Revaluation | | 308,582 | | 583,795 | 892,377 |
| Balance at end of period | \$ | 1,037,294 | \$ | 1,989,270 | \$ 3,026,564 |

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, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Warranty accrual, beginning of the fiscal period | \$ 364,548 | \$ 501,212 |
| Accrual adjustment for product warranty | (9,904) | 84,402 |
| Payments made | (19,771) | (221,066) |
| Warranty accrual, end of the fiscal period | \$ 334,873 | \$ 364,548 |

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.

The Company has a letter of credit to support a commitment in an amount of less than \$0.1 million.

14. Subsequent Events

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We have evaluated subsequent events through the date of the filing of this quarterly report on Form 10-Q with the Securities and Exchange Commission. During April 2015, the Company received gross proceeds of \$0.1 million from the issuance of 65,454 shares of common stock through the Controlled Equity Offering. See Note 10 for additional information on the Controlled Equity Offering.

Table of Contents**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, 2014. 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. 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 believe, expects, anticipates, intends, estimates, projects, can, could, may, 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 cardiology instrument control system for use in a hospital's interventional surgical suite to enhance the treatment of arrhythmias and coronary artery disease. The Epoch Solution is comprised of the Niobe® ES system, Odyssey® Solution, and the Vdrive® system. We believe that the Epoch Solution represents a revolutionary technology in the interventional surgical suite, or interventional lab, and has the potential to become the standard of care for a broad range of complex cardiology procedures. We also believe that our technology represents an important advance in the ongoing trend toward digital instrumentation in the interventional lab and provides substantial, clinically important improvements and cost efficiencies over manual interventional methods, which require years of physician training and often result in long and unpredictable procedure times and sub-optimal therapeutic outcomes.

The Niobe ES system is the latest generation of the Niobe ES Magnetic Navigation System (Niobe ES system). This 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.

Stereotaxis also has developed the Odyssey Solution which consolidates all lab information enabling doctors to focus on the patient for optimal procedure efficiency. The system also features a remote viewing and recording capability called Odyssey Cinema, which is an innovative solution delivering synchronized content for optimized workflow, advanced care and improved productivity. This tool includes an archiving capability that allows clinicians to store and replay entire procedures or segments of procedures. This information can be accessed from locations throughout the hospital local area network and over the global Odyssey Network providing physicians with a tool for clinical collaboration, remote consultation and training. The Odyssey Solution may be acquired in conjunction with a Niobe ES system or on a stand-alone basis for installation in interventional labs and other locations where clinicians often desire the benefits of Odyssey Solution that we believe can improve clinical workflows and related efficiencies.

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 (*V-Loop*, *V-Sono*, *V-CAS*, and *V-CAS Deflect*) which can be manipulated by these systems.

We generate revenue from both the initial capital sales of the *Niobe*, *Odyssey* and *Vdrive* systems as well as recurring revenue from the sale of our proprietary disposable devices, from ongoing license and service contracts, and from royalties paid to the Company on the sale by Biosense Webster of co-developed catheters. We market our products to a broad base of hospitals in the United States and internationally. As of March 31, 2015, the Company has an installed base of 124 *Niobe* ES systems.

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The core components of Stereotaxis systems have received regulatory clearance in the U.S., European Union, Canada, China, Japan and elsewhere. We have received the CE Mark that allows us to market the *Vdrive* and *Vdrive Duo* systems with the *V-CAS*, *V-CAS Deflect*, *V-Loop* and *V-Sono* devices in Europe. In addition, we have received licensing to market the *Vdrive* and *Vdrive Duo* systems with the *V-CAS*, *V-CAS Deflect*, *V-Loop* and *V-Sono* devices in Canada. We have received regulatory clearance that allows us to market the *Vdrive* and *Vdrive Duo* systems with the *V-CAS*, *V-Loop*, and *V-Sono* devices in the United States. We have received Food and Drug Administration (FDA) clearance and the CE Mark necessary for us to market our suite of Pegasus coronary peripheral guidewires in the U.S. and Europe.

Since our inception, we have generated significant losses. As of March 31, 2015, we incurred cumulative net losses of approximately \$461.7 million. In 2015, the Company plans to continue developing the *Niobe* ES system with the goal of furthering clinical adoption. Although we achieved an operating profit in the fourth quarter 2014, we expect to have negative cash flow from operations into 2015 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund additional sales and marketing initiatives. During 2015, we expect operating expenses to be generally consistent with 2014 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, 2014.

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.

Table of Contents**Results of Operations***Comparison of the Three Months Ended March 31, 2015 and 2014*

Revenue. Revenue increased from \$8.4 million for the three months ended March 31, 2014 to \$9.5 million for the three months ended March 31, 2015, an increase of 14%. Revenue from the sale of systems increased from \$1.3 million to \$2.8 million, an increase of approximately 112%, primarily due to higher *Niobe* and *Odyssey* system sales volumes. We recognized revenue on two *Niobe* systems, a total \$0.5 million for *Odyssey* and *Odyssey Cinema* systems, and \$0.3 million for *Vdrive* systems during the 2015 period. System revenue for the prior year period included *Niobe* ES 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. Revenue from sales of disposable interventional devices, service and accessories decreased to \$6.7 million for the three months ended March 31, 2015 from \$7.0 million for the three months ended March 31, 2014, a decrease of approximately 5%. The decrease in the current year period was primarily driven by the stronger U.S. dollar as well as higher service revenue in the 2014 period associated with a *Niobe* 1 to *Niobe* ES upgrade.

Cost of Revenue. Cost of revenue increased to \$2.6 million for the three months ended March 31, 2015 from \$1.6 million for the three months ended March 31, 2014. As a percentage of our total revenue, overall gross margin has decreased from 81% for the three months ended March 31, 2014 to 72% for the three months ended March 31, 2015, due to a shift in mix from disposable, service and accessory revenue to system revenue. Cost of revenue for systems sold increased from \$0.6 million for the three months ended March 31, 2014 to \$1.4 million for the three months ended March 31, 2015, an increase of approximately 150%, due primarily to increased *Niobe* and *Odyssey* system sales volumes. Gross margin for systems decreased to 51% for the three months ended March 31, 2015 from 58% for the three months ended March 31, 2014. This decrease was driven by product mix. Cost of revenue for disposables, service and accessories has increased from \$1.1 million for the three months ended March 31, 2014 to \$1.2 million for the three months ended March 31, 2015, an increase of 16%. Gross margin for disposables, service and accessories was 82% for the current quarter compared to 85% for the three months ended March 31, 2014. The decrease was driven by lower service revenue combined with higher expenses incurred under service contracts in the current year period.

Research and Development Expenses. Research and development expenses have remained relatively consistent with the three months ended March 31, 2014 at \$1.5 million.

Sales and Marketing Expenses. Sales and marketing expenses increased from \$3.6 million for the three months ended March 31, 2014 to \$4.0 million for the three months ended March 31, 2015, an increase of approximately 11%. This increase was primarily due to the hiring of additional sales employees which has driven higher headcount and travel related expenses.

General and Administrative Expenses. General and administrative expenses include regulatory, clinical, finance, information systems, legal, general management and training expenses. General and administrative expenses decreased from \$3.8 million for the three months ended March 31, 2014 to \$2.8 million for the three months ended March 31, 2015, a decrease of approximately 27%. This decrease was primarily due to decreased regulatory expenses associated with our Japanese license as well as decreased headcount costs and consulting expenses in the current year period.

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 was decreased to \$0.9 million for the three months ended March 31, 2015 from \$1.1 million for the three months ended March 31, 2014, a decrease of 17% due to the adjustment in fair value of warrants in the current year period.

Interest Expense. Interest expense remained relatively consistent with the three months ended March 31, 2014 at \$0.8 million.

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, 2015 we had \$4.4 million of cash and equivalents. We had working capital of approximately \$2.3 million and \$4.6 million as of March 31, 2015 and December 31, 2014, respectively. The decrease in the working capital is due principally to the net losses incurred for the first three months of 2015 partially offset by the proceeds from Controlled Equity Offering.

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The following table summarizes our cash flow by operating, investing and financing activities for the three months ended March 31, 2015 and 2014 (in thousands):

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2015 | 2014 |
| Cash flow used in operating activities | \$ (3,289) | \$ (2,378) |
| Cash flow used in investing activities | (52) | |
| Cash flow provided by financing activities | 509 | (95) |

Net cash used in operating activities. We used approximately \$3.3 million and \$2.4 million of cash for operating activities during the three months ended March 31, 2015 and 2014, respectively. During the first three months of 2015, we incurred an operating loss of \$1.4 million and used \$1.6 million in cash from changes in working capital. During the first three months of 2014, we incurred an operating loss of \$2.2 million and generated \$0.1 million in cash from changes in working capital. Therefore, the increase in cash used in operating activities was primarily driven by an increase in cash used from working capital, partially offset by a decrease in the operating loss during these periods.

Net cash used in investing activities. We used less than \$0.1 million during the three month period ended March 31, 2015 for the purchase of equipment. There were no purchases of equipment for the three month period ended March 31, 2014.

Net cash provided by financing activities. We generated approximately \$0.5 million of cash for the three month period ended March 31, 2015 compared to the \$0.1 million used for the three month period ended March 31, 2014. The cash generated for the current year period was driven by proceeds from stock issued through the Controlled Equity Offering.

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 loans collateralized by working capital and equipment. 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.

Capital Resources

As of March 31, 2015, 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.

Revolving Line of Credit

The Company has had a working capital line of credit with its primary lender, Silicon Valley Bank, since 2004. The revolving line of credit is secured by substantially all of the Company's assets. The maximum available under the line is \$10 million subject to the value of collateralized assets. The Company is 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 its primary lender. The facility was last amended on March 27, 2015, extending the maturity date to March 31, 2018. The current agreement requires the Company to maintain a liquidity ratio greater than 1.50:1.00, excluding certain short term advances from the calculation, and a minimum tangible net worth of not less than (no worse than) negative \$21.5 million for the quarters ended March 31, 2015, June 30, 2015, and September 30, 2015; not less than (no worse than) negative \$22.5 million for the quarters ended December 31, 2015, March 31, 2016, June 30, 2016, and September 30, 2016; not less than (no worse than) negative \$23.5 million for the quarters ended December 31, 2016, March 31, 2017, June 30, 2017, and September 30, 2017; and not less than (no worse than) negative \$24.5 million for the quarters ended December 31, 2017 and March 31, 2018.

As of March 31, 2015, 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, 2015 the Company had a borrowing capacity of \$6.5 million based on the Company's collateralized assets.

Table of Contents***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* ES 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* ES 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* ES 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* ES 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.

Common Stock

The holders of common stock are entitled to 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 line of credit agreement. No dividends have been declared or paid as of March 31, 2015.

Controlled Equity Offering

The Company entered into a Controlled Equity OfferingSM sales agreement (the Sales Agreement) in May 2014, as amended on March 26, 2015, with Cantor Fitzgerald & Co. (Cantor), as agent and/or principal, pursuant to which the Company could issue and sell, from time to time, shares of its common stock having an aggregate gross sales price of up to \$18.0 million. The Company will pay Cantor a commission of 3.0% of the gross proceeds from any common stock sold through the Sales Agreement.

During the three months ended March 31, 2015, the Company sold an aggregate of 311,222 shares of common stock under the Sales Agreement, at an average price of approximately \$2.02 per share for gross proceeds of \$629,505 and net proceeds of \$610,620, after deducting Cantor's commission. As of March 31, 2015, \$14.2 million of common stock remained available to be sold under this facility, subject to certain conditions as specified in the Sales Agreement.

Off-Balance Sheet Arrangements

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

are not materially exposed to any financing, liquidity, market or credit risk that could have arisen if we had engaged in these relationships.

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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, 2015 we have not hedged exposures in foreign currencies or entered into any other derivative instruments.

For the three months ended March 31, 2015, sales denominated in foreign currencies were approximately 10% of total revenue and as such, our revenue would have decreased by approximately \$0.2 million if the U.S. dollar exchange rate used would have strengthened by 10%. For the three months ended March 31, 2015, expenses denominated in foreign currencies were approximately 10% 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, 2015 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 and 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, 2015, the Company did not hold any investments other than those held in money market funds.

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.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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, 2014.

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 7, 2015

By: /s/ William C. Mills III
William C. Mills III,

Chief Executive Officer

Date: May 7, 2015

By: /s/ Martin C. Stammer
Martin C. Stammer,

Chief Financial Officer

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| 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 | Amendment No. 1, dated March 26, 2015, to Sales Agreement, dated May 16, 2014, between Stereotaxis, Inc. and Cantor Fitzgerald & Co., incorporated by reference to Exhibit 1.1 of the Registrant's Current Report on Form 8-K (File No. 001-36159) filed on March 26, 2015. |
| 10.2 | Tenth Loan Modification Agreement (Domestic), dated March 27, 2015, between Silicon Valley Bank, the Company, and Stereotaxis International, Inc., incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (File No. 001-36159) filed on March 30, 2015. |
| 10.3 | Amendment to Stereotaxis, Inc. 2009 Employee Stock Purchase Plan, as adopted February 27, 2015 (filed herewith). |
| 10.4 | Summary of Management Bonus Plan (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. |