

Stereotaxis, Inc.
Form 10-Q
November 05, 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 September 30, 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

94-3120386
(I.R.S. employer

Incorporation)

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 October 20, 2015 was 21,544,018.

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STEREOTAXIS, INC.

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	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,618,469	\$ 7,270,301
Accounts receivable, net of allowance of \$113,963 and \$131,464 in 2015 and 2014, respectively	6,598,667	6,480,499
Inventories	5,132,532	6,371,903
Prepaid expenses and other current assets	760,745	1,094,837
Total current assets	16,110,413	21,217,540
Property and equipment, net	1,076,692	894,728
Intangible assets, net	1,154,778	1,379,653
Other assets	294,900	388,850
Total assets	\$ 18,636,783	\$ 23,880,771
Liabilities and stockholders deficit		
Current liabilities:		
Accounts payable	\$ 2,323,086	\$ 2,353,133
Accrued liabilities	6,042,517	5,505,142
Deferred revenue	6,447,824	6,658,170
Warrants	1,302,039	2,134,187
Total current liabilities	16,115,466	16,650,632
Long-term debt, less current maturities	18,283,492	18,388,764
Long-term deferred revenue	812,070	976,165
Other liabilities	5,589	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, 21,271,844 and 20,480,874 shares issued at 2015 and 2014, respectively	21,272	20,481
Additional paid in capital	447,881,991	446,241,703
Treasury stock, 4,015 shares at 2015 and 2014	(205,999)	(205,999)
Accumulated deficit	(464,277,098)	(458,605,903)
Total stockholders deficit	(16,579,834)	(12,549,718)
Total liabilities and stockholders deficit	\$ 18,636,783	\$ 23,880,771

See accompanying notes.

Table of Contents**STEREOTAXIS, INC.****STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Systems	\$ 2,298,608	\$ 2,181,088	\$ 8,222,722	\$ 4,669,224
Disposables, service and accessories	6,976,006	6,673,013	20,247,169	20,587,084
Total revenue	9,274,614	8,854,101	28,469,891	25,256,308
Cost of revenue:				
Systems	1,286,849	1,318,456	4,536,391	2,958,668
Disposables, service and accessories	1,159,547	1,019,476	3,483,906	2,983,111
Total cost of revenue	2,446,396	2,337,932	8,020,297	5,941,779
Gross margin	6,828,218	6,516,169	20,449,594	19,314,529
Operating expenses:				
Research and development	1,494,201	1,214,405	4,399,734	4,030,594
Sales and marketing	3,691,805	3,717,670	11,976,955	11,445,089
General and administrative	2,549,690	2,763,667	8,116,989	9,537,043
Total operating expenses	7,735,696	7,695,742	24,493,678	25,012,726
Operating loss	(907,478)	(1,179,573)	(4,044,084)	(5,698,197)
Other income	725,356	2,034,731	832,148	2,139,718
Interest income	267	1,736	1,622	5,665
Interest expense	(815,071)	(834,224)	(2,460,881)	(2,505,842)
Net income (loss)	\$ (996,926)	\$ 22,670	\$ (5,671,195)	\$ (6,058,656)
Net earnings (loss) per common share:				
Basic	\$ (0.05)	\$ 0.00	\$ (0.27)	\$ (0.31)
Diluted	\$ (0.05)	\$ 0.00	\$ (0.27)	\$ (0.31)
Weighted average shares used in computing net earnings (loss) per common share:				
Basic	21,142,795	20,326,169	20,965,012	19,767,545
Diluted	21,142,795	20,518,757	20,965,012	19,767,545

See accompanying notes.

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STEREOTAXIS, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net loss	\$ (5,671,195)	\$ (6,058,656)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	223,430	334,908
Amortization of intangibles	224,875	224,875
Amortization of deferred finance costs	166,850	183,568
Share-based compensation	887,087	1,070,049
Adjustment of warrants	(832,148)	(2,139,718)
Changes in operating assets and liabilities:		
Accounts receivable	(118,168)	550,802
Inventories	893,745	(1,707,264)
Prepaid expenses and other current assets	167,242	326,517
Other assets	93,950	2,783
Accounts payable	(30,047)	(1,007,184)
Accrued liabilities	537,375	(552,771)
Deferred revenue	(374,441)	979,121
Other liabilities	(409,339)	
Net cash used in operating activities	(4,240,784)	(7,792,970)
Cash flows from investing activities		
Purchase of equipment	(59,768)	(47,640)
Net cash used in investing activities	(59,768)	(47,640)
Cash flows from financing activities		
Payments of Healthcare Royalty Partners debt	(105,272)	(95,368)
Proceeds from issuance of stock, net of issuance costs	753,992	2,885,243
Net cash provided by financing activities	648,720	2,789,875
Net decrease in cash and cash equivalents	(3,651,832)	(5,050,735)
Cash and cash equivalents at beginning of period	7,270,301	13,775,130
Cash and cash equivalents at end of period	\$ 3,618,469	\$ 8,724,395

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-Loop, V-Sono, QuikCAS, Cardiodrive[®], PowerAssert, Tita[®], and Pegasus are trademarks of Stereotaxis, Inc. All other trademarks that appear in this report are the property of their respective owners.

1. Description of Business

Stereotaxis designs, manufactures, and markets the Epoch[®] Solution, 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's 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 September 30, 2015, the Company has an installed base of 123 Niobe ES systems.

The core components of Stereotaxis systems have received regulatory clearance in the United States, 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-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-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 United States and Europe.

Since our inception, we have generated significant losses. As of September 30, 2015, we incurred cumulative net losses of approximately \$464.3 million. In 2015, the Company plans to continue developing the *Niobe* ES system with the goal of furthering clinical adoption and new system placements. 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, advance new products and new features 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. We continue to explore financing alternatives, which may include the sale of equity securities or non-core assets, strategic collaboration agreements, debt financings, or 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. 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 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, 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

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

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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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Numerator:				
Numerator for basic EPS	\$ (996,926)	\$ 22,670	\$ (5,671,195)	\$ (6,058,656)

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Numerator for diluted EPS	\$ (996,926)	\$ 22,670	\$ (5,671,195)	\$ (6,058,656)
Denominator:				
Denominator for basic				
EPS weighted average shares	21,142,795	20,326,169	20,965,012	19,767,545
Effect of dilutive securities:				
Restricted stock units		156,525		
Stock options, appreciation rights and warrants		36,063		
Denominator for diluted EPS	21,142,795	20,518,757	20,965,012	19,767,545
Basic EPS	\$ (0.05)	\$ 0.00	\$ (0.27)	\$ (0.31)
Diluted EPS	\$ (0.05)	\$ 0.00	\$ (0.27)	\$ (0.31)

In addition, the Company did not include any portion of unearned restricted shares, outstanding options, stock appreciation rights or warrants in the calculation of diluted loss per common share because all such securities are anti-dilutive for the three and nine months ended September 30, 2015 and the nine months ended September 30, 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.

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The following potential common shares were excluded from diluted EPS for the three months ended September 30, 2014 as they were antidilutive: 500,294 stock options and stock appreciation rights, 391,775 restricted stock units, and 2,111,618 warrants.

As of September 30, 2015, the Company had 750,705 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$9.32 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 762,898 shares of unvested restricted share units. The Company had no unearned restricted shares outstanding for the nine months ended September 30, 2015.

As of September 30, 2015, the Company had 5,755,775 warrants outstanding in conjunction with its September 9, 2015 offering (the Warrants Offering) of transferable subscription warrants to holders of record of the Company's common stock. Under the terms of the Warrants Offering shareholders of record on September 9, 2015 and holders of certain of the Company's warrants (pursuant to the terms of their respective warrants) were entitled to one subscription warrant to purchase one share of common stock at a price of \$1.10 per share for every four common shares held up to an aggregate of 5,755,775 shares of common stock. The Warrants Offering expired on October 2. See Note 14 Subsequent Events for additional details.

Recently Issued Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU or Update) No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory regarding the subsequent measurement of inventory as part of its Simplification Initiative. This standard is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. This Update should be applied prospectively, and early application is permitted as of the beginning of an interim or annual reporting period. 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 April 2015, the FASB issued ASU 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. In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update), which adds the SEC staff's guidance on the presentation of debt issuance costs associated with lines of credit to the Codification. The SEC staff stated it will not object to an entity presenting the costs of securing line-of-credit arrangements as an asset, regardless of whether there are any outstanding borrowings. 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 have evaluated the impact of adopting this accounting standard update on our financial statements and disclosures and the impact is immaterial. We will adopt the method in 2016.

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 and 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:

	September 30, 2015	December 31, 2014
Raw materials	\$ 2,099,640	\$ 2,746,926
Work in process	3,893	374,236
Finished goods	3,057,265	3,310,375
Reserve for obsolescence	(28,266)	(59,634)
Total inventories	\$ 5,132,532	\$ 6,371,903

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	September 30, 2015	December 31, 2014
Prepaid expenses	\$ 397,972	\$ 679,740
Deferred financing costs	430,810	492,385
Deposits	131,781	311,562
Deferred cost of revenue	95,082	
Total prepaid expenses and other assets	1,055,645	1,483,687
Less: Noncurrent prepaid expenses and other assets	(294,900)	(388,850)
Total prepaid expenses and other current assets	\$ 760,745	\$ 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:

	September 30, 2015	December 31, 2014
Equipment	\$ 8,452,520	\$ 8,264,804
Equipment held for lease	303,412	303,412
Leasehold improvements	2,328,381	2,328,381
	11,084,313	10,896,597
Less: Accumulated depreciation	(10,007,621)	(10,001,869)

Net property and equipment	\$	1,076,692	\$	894,728
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6. Intangible Assets

As of September 30, 2015, the Company had total intangible assets of \$3,665,000. Accumulated amortization at September 30, 2015, was \$2,510,222.

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Accrued liabilities consist of the following:

	September 30, 2015	December 31, 2014
Accrued salaries, bonus, and benefits	\$ 2,693,800	\$ 2,557,557
Accrued rent	1,387,005	1,407,740
Accrued licenses and maintenance fees	662,323	661,766
Accrued interest	490,792	493,616
Accrued warranties	304,606	364,548
Accrued taxes	311,529	332,364
Other	198,051	102,479
Total accrued liabilities	6,048,106	5,920,070
Less: Long term accrued liabilities	(5,589)	(414,928)
Total current accrued liabilities	\$ 6,042,517	\$ 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 September 30, 2015, the remaining accrued costs associated with the termination were \$302,264.

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Deferred revenue consists of the following:

	September 30, 2015	December 31, 2014
Product shipped, revenue deferred	\$ 326,588	\$ 457,348
Customer deposits		1,065,371
Deferred service and license fees	6,933,306	6,111,616
	7,259,894	7,634,335
Less: Long-term deferred revenue	(812,070)	(976,165)
Total current deferred revenue	\$ 6,447,824	\$ 6,658,170

9. Long-Term Debt and Credit Facilities

Debt outstanding consists of the following:

	September 30, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Healthcare Royalty Partners debt	\$ 18,283,492	18,283,492	\$ 18,388,764	18,388,764
Total debt	18,283,492	18,283,492	18,388,764	18,388,764
Less current maturities				
Total long term debt	\$ 18,283,492	\$ 18,283,492	\$ 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 September 30, 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 September 30, 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 September 30, 2015, the Company had a borrowing capacity of \$5.8 million based on the Company's collateralized assets, and cash and cash equivalents of \$3.6 million for a total liquidity of \$9.4 million.

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 September 30, 2015, the Company sold an aggregate of 160,020 shares of common stock under the Sales Agreement, at an average price of approximately \$1.89 per share for gross proceeds of \$301,741 and net proceeds of \$292,689, after deducting Cantor's commission. As of September 30, 2015, \$13.8 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**Warrant Offering**

As of September 30, 2015, the Company had 5,755,775 warrants outstanding in conjunction with its September 9, 2015 offering (the Warrants Offering) of transferable subscription warrants to holders of record of the Company's common stock. Under the terms of the Warrants Offering shareholders of record on September 9, 2015 and holders of certain of the Company's warrants (pursuant to the terms of their respective warrants) were entitled to one subscription warrant to purchase one share of common stock at a price of \$1.10 per share for every four common shares held up to an aggregate of 5,755,775 shares of common stock. The Warrants Offering expired on October 2. See Note 14 Subsequent Events for additional details.

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 the 2012 Stock Incentive Plan (the 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 September 30, 2015, the Company had 692,111 remaining shares of the Company's common stock to provide for current and future grants under its various equity plans.

At September 30, 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 \$2.1 million, net of estimated forfeitures of approximately \$1.1 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 nine month period ended September 30, 2015 is as follows:

	Number of Options/SARs	Range of Weighted Average Exercise Price per Share	
		Exercise Price	Share
Outstanding, December 31, 2014	487,146	\$1.69 - \$116.40	\$ 17.21
Granted	353,350	\$1.45 - \$2.15	\$ 2.07
Exercised			
Forfeited	(89,791)	\$1.69 - \$91.90	\$ 23.58
Outstanding, September 30, 2015	750,705	\$1.45 - \$116.40	\$ 9.32

As of September 30, 2015, there were no restricted shares outstanding.

A summary of the restricted stock unit activity for the nine month period ended September 30, 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	391,200	\$ 2.04
Vested	(238,385)	\$ 3.08
Forfeited	(87,668)	\$ 2.82
Outstanding, September 30, 2015	762,898	\$ 2.63

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.

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Level 2: Values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Values are generated from model-based techniques that use significant assumptions not observable in the market.

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

	Total	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at September 30, 2015:				
Cash equivalents	\$ 1,619,199	1,619,199		
Total assets at fair value	\$ 1,619,199	1,619,199		
Liabilities at September 30, 2015:				
Warrants issued May 10, 2012	440,137			440,137
Warrants issued August 2013	861,902			861,902
Total liabilities at fair value:	\$ 1,302,039			1,302,039
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 \$1,619,199 and \$5,361,053 at September 30, 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

nine month periods ended September 30, 2015, and September 30, 2014. There were no transfers in or out of Level 1 during the period ended September 30, 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 September 30, 2015 using the following assumptions: 1) volatility of 190.66%; 2) risk-free interest rate of 0.92%; and 3) a closing stock price of \$0.93.

The remaining warrants from the August 2013 expire in November 2018 and were revalued as of September 30, 2015 using the following assumptions: 1) volatility of 181.68%; 2) risk-free interest rate of 0.92%; and 3) a closing stock price of \$0.93.

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 nine month period ended September 30, 2015:

	Warrants issued May		Warrants issued August		
	2012		2013		Total Liabilities
Balance at beginning of period	\$	728,712	\$	1,405,475	\$ 2,134,187
Settlements					
Revaluation		(288,575)		(543,573)	(832,148)
Balance at end of period	\$	440,137	\$	861,902	\$ 1,302,039

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:

	September 30, 2015	December 31, 2014
Warranty accrual, beginning of the fiscal period	\$ 364,548	\$ 501,212
Accrual adjustment for product warranty	91,293	84,402
Payments made	(151,235)	(221,066)
Warranty accrual, end of the fiscal period	\$ 304,606	\$ 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.

14. Subsequent Events

On October 8, 2015, the Company completed an offering of subscription warrants to purchase shares of its common stock at a price of \$1.10 per share. Pursuant to the Warrants Offering, subscription warrants to purchase approximately 0.3 million shares of common stock were exercised, resulting in gross proceeds to the Company of approximately \$300,000.

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, 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 are 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, 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 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, 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's 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 the 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's 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 (*V-Loop*, *V-Sono*, and *V-CAS*) which can be manipulated by these systems.

We generate revenue from both the initial capital sale 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 by Biosense Webster for the sale of co-developed catheters. We market our products to a broad base of hospitals in the United States and internationally. As of September 30, 2015, the Company has an installed base of 123 *Niobe* ES systems.

The core components of Stereotaxis' systems have received regulatory clearance in the United States, 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-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-Loop*, and *V-Sono* devices in Canada. We have received regulatory clearance that

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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 United States and Europe.

Since our inception, we have generated significant losses. As of September 30, 2015, we incurred cumulative net losses of approximately \$464.3 million. In 2015, the Company plans to continue developing the *Niobe* ES system with the goal of furthering clinical adoption and new system placements. 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, 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.

Results of Operations

Comparison of the Three Months Ended September 30, 2015 and 2014

Revenue. Revenue increased from \$8.9 million for the three months ended September 30, 2014 to \$9.3 million for the three months ended September 30, 2015, an increase of 5%. Revenue from the sale of systems increased from \$2.2 million to \$2.3 million, an increase of approximately 5%, primarily due to increased *Niobe* system sales volumes. We recognized revenue on two *Niobe* systems and a total of

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\$0.5 million for *Odyssey* and *Odyssey Cinema* systems and \$0.1 million for *Vdrive* systems during the 2015 period. System revenue for the prior year period included \$0.9 million for *Niobe* system revenue, primarily due to *Niobe* system installations, a total \$1.1 million for *Odyssey* and *Odyssey Cinema* systems, and \$0.2 million for *Vdrive* systems. Revenue from sales of disposable interventional devices, service and accessories increased to \$7.0 million for the three months ended September 30, 2015 from \$6.7 million for the three months ended September 30, 2014, an increase of approximately 5%. The increase was primarily driven by higher service revenue, partially offset by the impact of the stronger U.S. dollar on European sales in the current year period.

Cost of Revenue. Cost of revenue increased to \$2.4 million for the three months ended September 30, 2015 from \$2.3 million for the three months ended September 30, 2014. As a percentage of our total revenue, overall gross margin has remained relatively consistent at 74% for the three months ended September 30, 2015 and for the three months ended September 30, 2014. Cost of revenue for systems sold remained relatively consistent at \$1.3 million for the three months ended September 30, 2014 and for the three months ended September 30, 2015. Gross margin for systems increased to 44% for the three months ended September 30, 2015 from 40% for the three months ended September 30, 2014. This increase was primarily due to higher average realized revenue on current period *Odyssey* system sales. Cost of revenue for disposables, service and accessories increased to \$1.2 million for the three months ended September 30, 2015 from \$1.0 million for the three months ended September 30, 2014 due to higher expenses incurred under service contracts in the current year period. Gross margin for disposables, service and accessories was 83% for the current quarter compared to 85% for the three months ended September 30, 2014.

Research and Development Expenses. Research and development expenses increased from \$1.2 million for the three months ended September 30, 2014 to \$1.5 million for the three months ended September 30, 2015, an increase of approximately 23%. This increase was primarily due to headcount costs and timing of project based material expenses.

Sales and Marketing Expenses. Sales and marketing expenses have remained consistently at \$3.7 million for the three months ended September 30, 2014 and for the three months ended September 30, 2015.

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 \$2.8 million for the three months ended September 30, 2014 to \$2.5 million for the three months ended September 30, 2015, a decrease of approximately 8%. This decrease was primarily driven by lower bad debt write-offs and consulting costs as well as the strengthening of the U.S. dollar during the prior year period.

Other Income. Other income 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.

Interest Expense. Interest expense has remained relatively consistent with the three months ended September 30, 2015 and 2014 at \$0.8 million.

Comparison of the Nine Months Ended September 30, 2015 and 2014

Revenue. Revenue increased from \$25.3 million for the nine months ended September 30, 2014 to \$28.5 million for the nine months ended September 30, 2015, an increase of approximately 13%. Revenue from the sale of systems increased from \$4.7 million to \$8.2 million, an increase of approximately 76%. We recognized revenue on six *Niobe* systems, a total of \$2.0 million on *Odyssey* and *Odyssey* family products, and \$0.5 million for *Vdrive* systems during the 2015 period. System revenue for the prior year period included one *Niobe* system which

was a *Niobe* I to *Niobe* ES system upgrade, a total of \$1.4 million for system installation revenue, one *Niobe* ES upgrade and a customer deposit for a previously cancelled *Niobe* system order. In addition, in the prior year we recognized revenue on a total of \$2.0 million for *Odyssey* and *Odyssey Cinema* systems and a total of \$0.7 million for *Vdrive* systems. Revenue from sales of disposable interventional devices, service and accessories decreased to \$20.2 million for the nine months ended September 30, 2015 from \$20.6 million for the nine months ended September 30, 2014, a decrease of approximately 2%. The decrease was attributable to the impact of the stronger U.S. dollar on European sales and lower disposable volume partially offset by higher service revenue in the current year period.

Cost of Revenue. Cost of revenue increased from \$5.9 million for the nine months ended September 30, 2014 to \$8.0 million for the nine months ended September 30, 2015, an increase of approximately 35%. As a percentage of our total revenue, overall gross margin decreased to 72% for the nine months ended September 30, 2015 compared to 76% during the same nine month period of the prior year due to a shift in mix from disposable, service and accessory revenue to system revenue. Cost of revenue for systems sold increased from \$3.0 million for the nine months ended September 30, 2014 to \$4.5 million for the nine months ended September 30, 2015, an increase of approximately 53%, primarily due to increased *Niobe* system sales volumes. Gross margin for systems increased

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from 37% for the nine months ended September 30, 2014 to 45% for the nine months ended September 30, 2015 due to improved selling prices. Cost of revenue for disposables, service and accessories increased to \$3.5 million during the 2015 period from \$3.0 million during the 2014 period, resulting in a decrease in gross margin to 83% from 86% between these periods driven by higher expenses incurred under service contracts in the current year period.

Research and Development Expenses. Research and development expenses increased from \$4.0 million for the nine months ended September 30, 2014 to \$4.4 million for the nine months ended September 30, 2015, an increase of approximately 9%. The increase is primarily due to higher headcount expenses and project spending.

Sales and Marketing Expenses. Sales and marketing expenses increased from \$11.4 million for the nine months ended September 30, 2014 to \$12.0 million for the nine months ended September 30, 2015, an increase of approximately 5%. This increase was primarily due to the addition of sales employees leading to increased 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 to \$8.1 million for the nine months ended September 30, 2015 from \$9.5 million for the nine months ended September 30, 2014, a decrease of approximately 15%. This decrease was primarily due to decreased regulatory expenses associated with our Japanese license, decreased headcount, consulting and bad debt expenses in the current year period.

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

Interest Expense. Interest expense remained relatively consistent at \$2.5 million for the nine months period ended September 30, 2015 and for the nine months period ended September 30, 2014.

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, 2015 we had \$3.6 million of cash and equivalents. We had a working capital deficit of less than \$0.1 million and working capital of \$4.6 million as of September 30, 2015 and December 31, 2014, respectively. The decrease in the working capital is due principally to the net losses incurred for the first nine months of 2015 partially offset by the proceeds from Controlled Equity Offering.

The following table summarizes our cash flow by operating, investing and financing activities for the nine months ended September 30, 2015 and 2014 (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Cash flow used in operating activities	\$ (4,241)	\$ (7,793)
Cash flow used in investing activities	(60)	(48)
Cash flow provided by financing activities	649	2,790

Net cash used in operating activities. We used approximately \$4.2 million and \$7.8 million of cash for operating activities during the nine months ended September 30, 2015 and 2014, respectively. The decrease in cash used in operating activities was primarily driven by changes in working capital and the reduced operating loss in the current year period.

Net cash used in investing activities. We used less than \$0.1 million during the nine months period ended September 30, 2015 and September 30, 2014 for the purchase of equipment.

Net cash provided by financing activities. We generated approximately \$0.6 million of cash for the nine month period ended September 30, 2015 compared to the \$2.8 million generated for the nine month period ended September 30, 2014. The cash generated in both periods 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. We continue to explore financing alternatives, which may include the sale of equity securities or non-core assets, strategic collaboration agreements, debt financings or 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.

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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 September 30, 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 September 30, 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 September 30, 2015 the Company had a borrowing capacity of \$5.8 million based on the Company's collateralized assets, and cash and cash equivalents of \$3.6 million for a total liquidity of \$9.4 million.

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 September 30, 2015.

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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 September 30, 2015, the Company sold an aggregate of 160,020 shares of common stock under the Sales Agreement, at an average price of approximately \$1.89 per share for gross proceeds of \$301,741 and net proceeds of \$292,689, after deducting Cantor's commission. As of September 30, 2015, \$13.8 million of common stock remained available to be sold under this facility, subject to certain conditions as specified in the Sales Agreement.

Warrant Offering

As of September 30, 2015, the Company had 5,755,775 warrants outstanding in conjunction with its September 9, 2015 offering (the Warrants Offering) of transferable subscription warrants to holders of record of the Company's common stock. Under the terms of the Warrants Offering shareholders of record on September 9, 2015 and holders of certain of the Company's warrants (pursuant to the terms of their respective warrants) were entitled to one subscription warrant to purchase one share of common stock at a price of \$1.10 per share for every four common shares held up to an aggregate of 5,755,775 shares of common stock. The Warrants Offering expired on October 2. See Note 14 Subsequent Events for additional details.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

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

collect payments under the order, which could adversely affect our operating margins. As of September 30, 2015 we have not hedged exposures in foreign currencies or entered into any other derivative instruments.

For the nine months ended September 30, 2015, sales denominated in foreign currencies were approximately 18% of total revenue and as such, our revenue would have decreased by \$0.7 million if the U.S. dollar exchange rate used would have strengthened by 10%. For the nine months ended September 30, 2015, expenses denominated in foreign currencies were approximately 11% of our total expenses and as such, our operating expenses would have decreased by approximately \$0.3 million if the U.S. dollar exchange rate used would have strengthened by 10%. In addition, we have assets and liabilities denominated in foreign currencies. A 10% strengthening of the U.S. dollar exchange rate against all currencies with which we have exposure at September 30, 2015 would have resulted in a \$0.2 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 September 30, 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. However, a hypothetical increase in interest rates of 100 basis points would have no impact on interest expense due to an interest rate floor of 7.0% on our floating rate debt.

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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

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

We have recently received a notice from Nasdaq advising that we do not meet the continued listing standards of the Nasdaq Capital Market. If we are unable to maintain a listing on a national securities exchange, it could negatively impact the price and liquidity of our common stock and our ability to access the capital markets.

Our common stock is currently listed on the Nasdaq Capital Market. In order to maintain that listing, we must satisfy minimum financial and other requirements. On August 5, 2015, the Nasdaq Stock Market LLC (NASDAQ) notified us that the Company no longer complies with NASDAQ Listing Rule 5550(b)(2), the Market Value of Listed Securities (MVLS) Rule, because the Company did not maintain a minimum MVLS of \$35 million for the 30 consecutive business days prior to the date of the letter. In accordance with Rule 5810(c)(3)(C), the Company will be provided 180 calendar days, or until February 1, 2016, to regain compliance with the MVLS Rule. The Company may regain compliance with the MVLS Rule if the Company s MVLS closes at \$35 million or more for a minimum of 10 consecutive business days at any time before February 1, 2016. However, we may be unable to do so in that time frame, or at all. It is also possible that we would otherwise fail to satisfy another Nasdaq requirement for continued listing of our common stock. If we fail to continue to meet all applicable Nasdaq Capital Market requirements in the future and NASDAQ determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock, adversely affect our ability to obtain financing for the continuation of our operations and harm our business. In addition, receipt of a deficiency notice from Nasdaq with respect to our ongoing compliance with the Nasdaq Capital Market continued listing standards could also result in other negative implications, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest and fewer business development opportunities. Any of such developments as a result of the foregoing could impair the value of your investment.

Additional Risk Factors are discussed in our Annual Report on Form 10-K for the year ended December 31, 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: November 5, 2015

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

Chief Executive Officer

Date: November 5, 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.
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.