

Stereotaxis, Inc.
Form 10-Q
August 10, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2017

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 31, 2017 was 22,753,121.

STEREOTAXIS, INC.

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ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.

BALANCE SHEETS

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,035,463	\$ 8,501,392
Accounts receivable, net of allowance of \$603,588 and \$379,817 in 2017 and 2016, respectively	4,876,716	4,665,959
Inventories	4,984,115	5,381,103
Prepaid expenses and other current assets	617,412	855,295
Total current assets	15,513,706	19,403,749
Property and equipment, net	792,367	1,086,244
Intangible assets, net	336,908	436,569
Other assets	41,047	39,241
Total assets	\$ 16,684,028	\$ 20,965,803
Liabilities and stockholders deficit		
Current liabilities:		
Accounts payable	\$ 1,737,247	\$ 2,623,010
Accrued liabilities	3,887,511	4,491,164
Deferred revenue	8,101,667	8,751,336
Warrants	16,357,444	19,787,007
Total current liabilities	30,083,869	35,652,517
Long-term deferred revenue	377,076	522,329
Other liabilities	321,316	320,409
Total liabilities	30,782,261	36,495,255
Convertible Preferred stock:		
Convertible Preferred stock, par value \$0.001; 10,000,000 shares authorized, 23,900 shares outstanding at 2017 and 2016	5,960,475	5,960,475
Stockholders deficit:		
Common stock, par value \$0.001; 300,000,000 shares authorized, 22,612,043 and 22,063,582 shares issued at 2017 and 2016, respectively	22,612	22,064
Additional paid in capital	450,370,408	449,939,406
Treasury stock, 4,015 shares at 2017 and 2016	(205,999)	(205,999)
Accumulated deficit	(470,245,729)	(471,245,398)
Total stockholders deficit	(20,058,708)	(21,489,927)
Total liabilities and stockholders deficit	\$ 16,684,028	\$ 20,965,803

See accompanying notes.

STEREOTAXIS, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Systems	\$ 1,828,439	\$ 935,978	\$ 2,047,334	\$ 3,010,997
Disposables, service and accessories	6,638,587	6,938,645	13,397,364	13,511,632
Total revenue	8,467,026	7,874,623	15,444,698	16,522,629
Cost of revenue:				
Systems	920,517	395,898	1,140,961	1,478,996
Disposables, service and accessories	1,281,729	699,173	2,317,911	1,796,888
Total cost of revenue	2,202,246	1,095,071	3,458,872	3,275,884
Gross margin	6,264,780	6,779,552	11,985,826	13,246,745
Operating expenses:				
Research and development	1,281,264	1,421,380	2,439,697	2,894,465
Sales and marketing	3,472,619	4,211,706	7,098,219	8,105,819
General and administrative	1,945,676	2,786,046	4,785,546	5,372,838
Total operating expenses	6,699,559	8,419,132	14,323,462	16,373,122
Operating loss	(434,779)	(1,639,580)	(2,337,636)	(3,126,377)
Other income	300,255	135,370	3,429,563	166,664
Interest income	1	140	9	362
Interest expense	(42,776)	(829,046)	(92,267)	(1,648,066)
Net income (loss)	\$ (177,299)	\$ (2,333,116)	\$ 999,669	\$ (4,607,417)
Cumulative dividend on convertible preferred stock	(369,661)		(732,849)	
Net income attributable to convertible preferred stock			(167,539)	
Earnings (net loss) attributable to common stockholders	\$ (546,960)	\$ (2,333,116)	\$ 99,281	\$ (4,607,417)
Earnings (net loss) per common share:				
Basic	\$ (0.02)	\$ (0.11)	\$ 0.00	\$ (0.21)
Diluted	\$ (0.02)	\$ (0.11)	\$ 0.00	\$ (0.21)
Weighted average shares used in computing earnings (net loss) per common share:				
Basic	22,581,330	21,793,583	22,450,392	21,702,597
Diluted	22,581,330	21,793,583	22,458,479	21,702,597

See accompanying notes.

STEREOTAXIS, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net earnings (loss)	\$ 999,669	\$ (4,607,417)
Adjustments to reconcile net earnings (loss) to cash used in operating activities:		
Depreciation	277,402	185,802
Amortization of intangibles	99,661	99,660
Amortization of deferred finance costs	49,588	108,850
Share-based compensation	412,678	566,975
Loss on asset disposal	20,772	
Adjustment of warrants	(3,429,563)	(166,664)
Changes in operating assets and liabilities:		
Accounts receivable	(210,757)	1,318,967
Inventories	396,988	(806,755)
Prepaid expenses and other current assets	288,295	147,942
Other assets	(1,806)	(13,081)
Accounts payable	(885,763)	587,562
Accrued liabilities	(603,653)	(627,335)
Deferred revenue	(794,922)	(1,398,213)
Other liabilities	907	(5,307)
Net cash used in operating activities	(3,380,504)	(4,609,014)
Cash flows from investing activities		
Purchase of fixed assets	(4,297)	
Net cash used in investing activities	(4,297)	
Cash flows from financing activities		
Payments of deferred financing costs	(100,000)	(100,000)
Proceeds from (payments of) revolving line of credit		3,000,000
Payments of Healthcare Royalty Partners debt		(23,709)
Proceeds from issuance of stock, net of issuance costs	18,872	(2,770)
Net cash provided by (used in) financing activities	(81,128)	2,873,521
Net increase (decrease) in cash and cash equivalents	(3,465,929)	(1,735,493)
Cash and cash equivalents at beginning of period	8,501,392	5,593,582
Cash and cash equivalents at end of period	\$ 5,035,463	\$ 3,858,089

See accompanying notes.

STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Notes to Financial Statements

In this report, Stereotaxis, the Company, Registrant, we, us, and our refer to Stereotaxis, Inc. and its wholly owned subsidiaries. Epoch®, Niobe®, Odyssey®, Odyssey Cinema, Vdrive®, Vdrive Duo, V-CAS, V-Loop, V-Sono, V-CAS Deflect, QuikCAS, Cardiodr®, 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, 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 Remote 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* 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. As of June 30, 2017, the Company had an installed base of 128 *Niobe* ES systems.

In addition to the *Niobe* system and its components, Stereotaxis also has developed the *Odyssey* Solution, which consolidates all lab information enabling doctors to focus on the patient for optimal procedure efficiency. The system also features a remote viewing and recording capability called *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.

Our *Vdrive* system provides navigation and stability for diagnostic and therapeutic devices designed to improve interventional procedures. The *Vdrive* system complements the *Niobe* ES system control of therapeutic catheters for fully remote procedures and enables single-operator workflow and is sold as two options, the *Vdrive* system and the *Vdrive Duo* system. In addition to the *Vdrive* system and the *Vdrive Duo* system, we also manufacture and market various disposable components which can be manipulated by these systems.

We promote the full *Epoch* Solution in a typical hospital implementation, subject to regulatory approvals or clearances. The full *Epoch* Solution implementation requires a hospital to agree to an upfront capital payment and recurring payments. The upfront capital payment typically includes equipment and installation charges. The recurring payments typically include disposable costs for each procedure, equipment service costs beyond warranty period, and software licenses. In hospitals where the full *Epoch* Solution has not been implemented, equipment upgrade or expansion can be implemented upon purchasing of the necessary upgrade or expansion.

The core components of Stereotaxis systems, such as the *Niobe* system, *Odyssey* Solution, *Cardiodrive* and various disposable interventional devices have received regulatory clearance in the U.S., Europe, Canada, China, Japan and various other countries. We have received the regulatory clearance, licensing and/or CE Mark approvals that allow us to market the *Vdrive* and *Vdrive Duo* systems with the *V-CAS*, *V-Loop* and *V-Sono* devices in the U.S., Canada and European Union. The *V-CAS Deflect* catheter advancement system has been CE Marked for sale in the European Union.

We have alliances with each of Biosense Webster, Inc., Philips Medical Systems, and Siemens AG Medical Solutions, through which we integrate our *Niobe* system with their respective digital imaging and 3D catheter location sensing technology, as well as disposable interventional devices. The maintenance of such alliances, or the establishment of equivalent alternatives, is critical to our commercialization efforts. The commercial availability of currently compatible digital imaging fluoroscopy systems is unlikely to continue indefinitely and efforts are being made to ensure the availability of integrated next generation systems and/or equivalent alternatives; however, we cannot assure as to the timeline of the ongoing availability of such compatible systems or our ability to obtain equivalent alternatives on competitive terms or at all.

The Company believes the cash on hand at June 30, 2017 and expected borrowing capacity available will be sufficient to meet its obligations as they become due in the ordinary course of business for at least 12 months following the date these financial statements are issued. This evaluation assumes the Company is able to renew and has the ability to borrow under its asset based revolving credit facility which matures on March 31, 2018. The Company expects to be able to renew this facility at similar terms, as it has successfully done so in the past. There is no assurance that the revolving credit facility will be renewed in a timely manner, in amounts that are sufficient to meet the Company's obligations as they become due, or on terms acceptable to the Company, or at all. The Company has sustained operating losses throughout its corporate history and expects that its 2017 expenses will exceed its 2017 gross margin. The Company expects to continue to incur operating losses and negative cash flows until revenues reach a level

sufficient to support ongoing operations or expense reductions are in place. Accordingly, management has analyzed its planned operations to evaluate the Company's ability to continue as a going concern. The Company's liquidity needs will be largely determined by the success of clinical adoption within the installed base of *Niobe* systems as well as by new placements of capital systems. The Company's plans for improving its liquidity conditions, which are probable of effectively being implemented, primarily include its ability to control the timing and spending of its operating expenses and raising additional funds through capital transactions. Specifically, cash outflows for operating expenses could be reduced or delayed by transitioning certain cash payments to stock payments, by reducing project expenses, or by reducing headcount. The Company also may consider raising cash through capital transactions, which could include either debt or equity financing.

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 six month period ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017 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, 2016 as filed with the Securities and Exchange Commission (SEC) on March 16, 2017.

Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and debt. The carrying value of such amounts reported at the applicable balance sheet dates approximates fair value.

The Company measures certain financial assets and liabilities, including warrants, at fair value on a recurring basis. 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 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. 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 net income (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the number of common shares outstanding during the period. We apply the two-class method to calculate basic and diluted net income (loss) per share of common stock, as our Convertible Preferred Stock is a participating security. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common stockholders. In periods where there is a net loss, the two-class method of computing earnings per share does not apply as our Convertible Preferred Stock does not contractually participate in our losses. We compute diluted net income (loss) per common share using net income (loss) as the control number in determining whether potential common shares are dilutive, after giving consideration to all potentially dilutive common shares, including stock options, warrants, unvested restricted stock units outstanding during the period and potential issuance of stock upon the conversion of our Convertible Preferred Stock issued and outstanding during the period, except where the effect of such securities would be antidilutive.

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

	Three months ended		Six months ended June 30,	
	2017	2016	2017	2016
Net income (loss)	\$ (177,299)	\$ (2,333,116)	\$ 999,669	\$ (4,607,417)
Cumulative dividend on convertible preferred stock	(369,661)		(732,849)	
Net income attributable to convertible preferred stock			(167,539)	
Earnings (net loss) attributable to common stockholders	\$ (546,960)	\$ (2,333,116)	\$ 99,281	\$ (4,607,417)

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Shares used for basic EPS-weighted average shares	22,581,330	21,793,583	22,450,392	21,702,597
Effect of dilutive securities:				
Restricted Stock Units			8,087	
Stock Options, Appreciation Rights and Warrants				
Weighted average shares used in computing earnings (net loss) per share	22,581,330	21,793,583	22,458,479	21,702,597
Basic EPS	\$ (0.02)	\$ (0.11)	\$ 0.00	\$ (0.21)
Diluted EPS	\$ (0.02)	\$ (0.11)	\$ 0.00	\$ (0.21)

The following potential common shares were excluded from diluted EPS for the six months ended June 30, 2017 as they were antidilutive: 645,885 stock options and stock appreciation rights, 628,775 restricted stock units, and 38,779,119 warrants.

In addition, the Company did not include any portion of unearned restricted stock units, outstanding options, stock appreciation rights or warrants in the calculation of diluted loss per common share for the three months ended June 30, 2017 or the three and six months ended June 30, 2016 because all such securities are anti-dilutive for the period. The Company had no unearned restricted shares during either period.

As of June 30, 2017, the Company had 645,885 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$7.01 per share, 38,779,119 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$0.82 per share, 38,463,078 shares of common stock issuable upon the conversion of Series A Convertible Preferred Stock and accumulated dividends at an exercise price of \$0.65 per share, and 636,862 shares of unvested restricted share units.

Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU or Update) No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This amendment is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeitures, and classification on the statement of cash flows. This update is effective for fiscal years beginning after December 15, 2016 (January 1, 2017 for the Company) and interim periods within those fiscal years, with earlier application permitted. The Company adopted this guidance in the first quarter of 2017. The adoption of ASU 2016-09 did not materially impact the Company's consolidated financial position, results of operations, equity or cash flows.

In July 2015, the FASB issued ASU 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 (January 1, 2017 for the Company), 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. The Company adopted this accounting standard update in the first quarter of 2017. The adoption of ASU 2015-11 did not materially impact the company's results of operations, financial conditions, cash flows, or financial statement presentation.

In February 2016, the FASB issued ASU 2016-02, Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective for interim and annual periods beginning after December 31, 2018 (January 1, 2019 for the Company), with early adoption permitted. The Company is in the process of evaluating the impact of this accounting standard update.

In August 2014, the Financial Accounting Standards Board (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 (December 31, 2016 for the Company). Early adoption is permitted. The Company adopted this accounting standard update effective December 31, 2016 and provided the relevant disclosures in Note 1.

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, 2017 (January 1, 2018 for the Company). 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. The Company will adopt ASU 2014-09 during the first quarter of 2018 and anticipates using the

modified retrospective method that will result in a cumulative effect adjustment as of the date of adoption. Upon initial evaluation, management does not anticipate a significant change to its existing units of accounting which include systems, disposables and other accessories, royalty and other recurring revenue. The Company continues to evaluate other areas of the standard and its effect on the Company's financial statements.

3. Inventories

Inventories consist of the following:

	June 30, 2017	December 31, 2016
Raw materials	\$ 2,435,855	\$ 2,397,430
Work in process	403,863	341,125
Finished goods	2,502,343	2,915,162
Reserve for obsolescence	(357,946)	(272,614)
Total inventory	\$ 4,984,115	\$ 5,381,103

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	June 30, 2017	December 31, 2016
Prepaid expenses	\$ 328,404	\$ 575,886
Deferred financing costs	75,068	24,658
Deposits	254,987	293,992
Total prepaid expenses and other assets	658,459	894,536
Less: Noncurrent prepaid expenses and other assets	(41,047)	(39,241)
Total current prepaid expenses and other assets	\$ 617,412	\$ 855,295

5. Property and Equipment

Property and equipment consist of the following:

	June 30, 2017	December 31, 2016
Equipment	\$ 7,258,587	\$ 8,397,528
Equipment held for lease	0	303,412
Leasehold improvements	2,592,338	2,719,860
	9,850,925	11,420,800
Less: Accumulated depreciation	(9,058,558)	(10,334,556)

Net property and equipment	\$	792,367	\$	1,086,244
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6. Intangible Assets

As of June 30, 2017, the Company had total intangible assets of \$3,221,069. Accumulated amortization at June 30, 2017, was \$2,884,161.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2017	December 31, 2016
Accrued salaries, bonus, and benefits	\$ 2,197,612	\$ 2,452,183
Accrued rent	640,496	965,412
Accrued licenses and maintenance fees	573,378	561,450
Accrued warranties	181,308	222,845
Accrued taxes	267,164	219,017
Accrued professional services	112,500	180,450
Other	236,369	210,216
Total accrued liabilities	4,208,827	4,811,573
Less: Long term accrued liabilities	(321,316)	(320,409)
Total current accrued liabilities	\$ 3,887,511	\$ 4,491,164

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 June 30, 2017, the remaining accrued costs associated with the termination were \$138,528.

In the fourth quarter of 2015, the Company entered an agreement to sublease 3,152 square feet of the first floor office space through December 31, 2018. In July 2016, the Company and the subtenant mutually agreed to an early termination of the sublease, effective July 31, 2016.

In August 2016 the Company entered into an agreement to sublease approximately 11,000 square feet of office space through December 31, 2018. The costs associated with the sublease were \$40,972 and were accrued as a rent liability as of August 31, 2016. In January 2017, as part of the sublease agreement, the Company subleased an additional 16,000 square feet through December 31, 2018. The costs associated with the January sublease were \$28,208. As of June 30, 2017, the remaining accrued costs associated with the termination were \$38,633.

8. Deferred Revenue

Deferred revenue consists of the following:

	June 30, 2017	December 31, 2016
Product shipped, revenue deferred	\$ 665,726	\$ 549,709
Customer deposits	1,455,000	2,910,000
Deferred service and license fees	6,358,017	5,813,956
Total deferred revenue	8,478,743	9,273,665

Less: Long-term deferred revenue	(377,076)	(522,329)
Total current deferred revenue	\$ 8,101,667	\$ 8,751,336

9. Long-Term Debt and Credit Facilities

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 \$10.0 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 amended on March 27, 2015, extending the maturity date to March 31, 2018 and on May 10, 2016, the Company and the primary lender agreed to modify certain financial covenants. The amended 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 \$24.0 million for the quarters ended June 30, 2016, September 30, 2016, 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 June 30, the Company is in compliance with its loan covenants.

As of June 30, 2017, the Company had no outstanding balance under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one week in arrears. As of June 30, 2017, the Company had a borrowing capacity of \$3.9 million based on the Company's collateralized assets. The Company's total liquidity as of June 30, 2017, was \$8.9 million which included cash and cash equivalents of \$5.0 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 \$15 million from Healthcare Royalty Partners. 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 nine months ended June 30, 2012. On January 31, 2013, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* ES system sales for the twelve months ended December 31, 2012. The loan was to 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 was entitled to receive 100% of all royalties due to the Company under the Biosense Agreement until the loan was repaid. The loan was a full recourse loan, scheduled to mature on December 31, 2018, and included 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 were insufficient to pay all amounts of interest due on the loan, then such deficiency would have increased the outstanding principal amount on the loan. The loan was also secured by certain assets and intellectual property of the Company. The agreement also contained customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender.

In September 2016, the Company extinguished the remainder of the debt of \$18.1 million, net of deferred financing costs of approximately \$0.3 million, as well as accrued interest of \$0.5 million for \$13.0 million based upon an agreement entered into with Healthcare Royalty Partners. Following the repayment of the loan obligation, the royalties under the Biosense Agreement are now paid to the Company. As a result of the debt extinguishment, the Company recognized a net gain of \$5.6 million in 2016.

10. Convertible Preferred Stock and 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 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 June 30, 2017.

Convertible Preferred Stock and Warrants

On September 26, 2016, the Company entered into a Securities Purchase Agreement with certain institutional and other accredited investors whereby it agreed to sell, for an aggregate purchase price of \$24.0 million, (i) an aggregate of 24,000 shares of Series A Convertible Preferred Stock, par value \$0.001 with a stated value of \$1,000 per share which are convertible into shares of the Company's common stock and (ii) warrants to purchase an aggregate of 36,923,078 shares of common stock. The transaction closed on September 29, 2016.

The Company received net proceeds from the sale of the convertible preferred stock and warrants of \$23.0 million, after offering expenses. The Company used \$13.0 million of the funds to satisfy in full all amounts outstanding under the Loan Agreement with Healthcare Royalty Partners, as noted above, and anticipates using the remaining proceeds

for general corporate purposes.

The designations, preferences, powers and rights of the convertible preferred shares are set forth in a Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock (Certificate of Designations) filed with the Delaware Secretary of State. The convertible preferred shares are entitled to vote on an as-converted basis with the common stock, subject to specified beneficial ownership issuance limitations. The convertible preferred shares bear dividends at a rate of six percent (6%) per annum, which are cumulative and accrue daily from the date of issuance on the \$1,000 stated value. Such dividends will not be paid in cash except in connection with any liquidation, dissolution or winding up of the Company or any redemption of the convertible preferred shares. Instead the value of the accrued dividends is added to the liquidation preference of the convertible preferred shares and will increase the number of shares of common stock issuable upon conversion. Each convertible preferred share is convertible at the option of the holder from and after the date of issuance with no expiration date, at an initial conversion price of \$0.65 per share, subject to adjustment in the event of stock splits, dividends, mergers, sales of all or substantially all of our assets or similar transactions, subject to specified beneficial ownership issuance limitations. Each holder of convertible preferred shares has the right to require us to redeem such holder's convertible preferred shares upon the occurrence of specified events, which include certain business combinations, the sale of all or substantially all of the Company's assets or the sale of more than 50% of the outstanding shares of the Company's common stock. In addition, the Company has the right to redeem the convertible preferred shares in the event of a change of control as defined in the Certificate of Designations.

The convertible preferred shares rank senior to our common stock as to distributions and payments upon the liquidation, dissolution and winding up of the Company. No such distributions or payments upon the liquidation, dissolution and winding up of the Company may be made to the holders of common stock unless and until the holders of convertible preferred shares have received the stated value of \$1,000 per share plus any accrued and unpaid dividends. Until all convertible preferred shares have been converted or redeemed, no dividends may be paid on the common stock without the express written consent of the holders of a majority of the outstanding convertible preferred shares. In the event that dividends or other distributions of assets are made or paid by the Company to the holders of the common stock, the holders of convertible preferred shares are entitled to participate in such dividend or distribution on an as-converted basis.

On the date of the issuance, the fair value of the convertible preferred stock was greater than the allocated proceeds received for the Series A Convertible Preferred Stock. As such, the Company accounted for the beneficial conversion feature under ASC 470-20, Debt with Conversion feature under ASC 470-20, Debt with Conversion and Other Options. The Company recorded a deemed dividend charge of \$6.1 million for the accretion of a discount on the Series A Convertible Preferred Stock. The deemed dividend was a non-cash transaction and was reflected below net loss to arrive at net loss available to common stockholders in 2016. Since the convertible preferred shares are subject to conditions for redemption that are outside the Company's control, the convertible preferred shares are presently reported in the mezzanine section of the balance sheet.

The warrants issued in conjunction with the convertible preferred stock have an exercise price equal to \$0.70 per share subject to adjustments as provided under the terms of the warrants. The warrants are exercisable through September 29, 2021, subject to specified beneficial ownership issuance limitations. The warrants may be exercised by any holder on a cashless basis if, at any time after the date that is 180 days after the closing, the registration statement required by the Registration Rights Agreement is not effective and available for resale of all of the shares of common stock issuable upon exercise of such holder's warrants. Due to the fact that the warrants are puttable upon the occurrence of certain events outside of the Company's control, the warrants qualify as liabilities under ASC 480-10. 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 income (expense) in the Statements of Operations. See Note 11 for additional details.

On December 2, 2016, 100 shares of convertible preferred stock plus accumulated dividends were converted into 155,439 common shares.

Listing Transfer to OTCQX® Best Market

On August 2, 2016, the Company received a determination letter from the Nasdaq Hearings Panel (the Panel) notifying the Company that its common stock would be delisted from The Nasdaq Capital Market (Nasdaq) and that suspension of trading in the shares would be effective at the open of business on August 4, 2016. The delisting was completed by the filing of a Form 25 Notification of Delisting with the Securities Exchange Commission by Nasdaq on November 10, 2016. The Panel made the determination to delist the Company's common stock because the Company did not demonstrate compliance with the minimum \$35 million market value of listed securities requirement for a period of ten consecutive trading days by August 1, 2016, as required by a decision previously issued by the Panel on May 2, 2016. The Company's shares of common stock commenced trading on the OTCQX Best Market on August 4, 2016 under the Company's current ticker symbol of STXS.

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 paid Cantor a commission of 3.0% of the gross proceeds from any common stock

sold through the Sales Agreement.

There were no proceeds from the Controlled Equity Offering during the twelve months ended December 31, 2016. The Sales Agreement expired in November 2016 upon the expiration of our Registration Statement on Form S-3.

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 July 2012, the Compensation Committee of 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, June 10, 2014, May 24, 2016, and May 23, 2017, 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. Under each of the amendments on June 5, 2013 and June 10, 2014, the number of shares authorized for issuance under the Plan was increased by one

million shares. The amendment on May 24, 2016 increased the number of shares authorized for issuance under the Plan by 1.5 million shares, and the amendment on May 23, 2017 increased the number of shares authorized for issuance under the Plan by 4.0 million shares. At June 30, 2017, the Company had 5,544,098 remaining shares of the Company's common stock to provide for current and future grants under its various equity plans.

At June 30, 2017, 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 \$0.9 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 actual forfeitures and anticipated vesting periods.

A summary of the option and stock appreciation rights activity for the six month period ended June 30, 2017 is as follows:

	Number of Options/SARs	Range of Exercise Price	Weighted Average Exercise Price per Share
Outstanding, December 31, 2016	671,887	\$ 1.45 - \$116.40	\$ 8.77
Granted	10,000	\$ 0.62	\$ 0.62
Exercised			
Forfeited	(36,002)	\$ 2.15 - \$116.40	\$ 38.16
Outstanding, June 30, 2017	645,885	\$ 0.62 - \$54.90	\$ 7.01

A summary of the restricted stock unit activity for the six month period ended June 30, 2017 is as follows:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value per Unit
Outstanding, December 31, 2016	1,167,099	\$ 1.48
Granted	30,000	\$ 0.68
Vested	(515,737)	\$ 1.76
Forfeited	(44,500)	\$ 1.51
Outstanding, June 30, 2017	636,862	\$ 1.21

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:

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

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

	Total	Fair Value Measurement Using Quoted Prices in		
		Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at June 30, 2017:				
Cash equivalents	\$ 791	791		
Total assets at fair value	\$			
Liabilities at June 30, 2017:				
Warrants issued May 2012	\$ 1,819			1,819
Warrants issued August 2013	35,625			35,625
Warrants issued September 2016	16,320,000			16,320,000
Total liabilities at fair value:	\$ 16,357,444			16,357,444
Assets at December 31, 2016:				
Cash equivalents	\$			
Total assets at fair value	\$			
Liabilities at December 31, 2016:				
Warrants issued May 2012	\$ 66,081			66,081
Warrants issued August 2013	151,695			151,695
Warrants issued September 2016	19,569,231			19,569,231
Total liabilities at fair value:	\$ 19,787,007			19,787,007

Level 1

The Company's financial assets consist of cash equivalents invested in money market funds in the amount of \$791 and \$0 at June 30, 2017 and December 31, 2016, respectively. These assets are classified as Level 1 as described above and total interest income recorded for these investments was insignificant during both the six month periods ended June 30, 2017, and June 30, 2016. There were no transfers in or out of Level 1 during the period ended June 30, 2017.

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, August 2013 and September 2016 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 income (expense) in the Statements of Operations.

The remaining warrants from the May 2012 transaction (PIPE Warrants) expire in May 2018 and were revalued as of June 30, 2017 using the following assumptions: 1) volatility of 79.92%; 2) risk-free interest rate of 1.24%; and 3) a closing stock price of \$0.58.

The remaining warrants from the August 2013 transaction (Exchange Warrants) expire in November 2018 and were revalued as of June 30, 2017 using the following assumptions: 1) volatility of 92.83%; 2) risk-free interest rate of 1.24%; and 3) a closing stock price of \$0.58.

The remaining warrants from the September 2016 transaction expire in September 2021 and were valued as of June 30, 2017 using the following assumptions: 1) volatility of 117.82%; 2) risk-free interest rate of 1.89%; and 3) a closing stock price of \$0.58.

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.

The following table sets forth a summary of changes in the fair value of the Company's Level 3 financial liabilities for the six month period ended June 30, 2017:

	Warrants issued			Total Liabilities
	Warrants issued May 2012	Warrants issued August 2013	September 2016	
Balance at beginning of period	\$ 66,081	\$ 151,695	\$ 19,569,231	\$ 19,787,007
Issues				
Settlements				
Revaluation	(64,262)	(116,070)	(3,249,231)	(3,429,563)
Balance at end of period	\$ 1,819	\$ 35,625	\$ 16,320,000	\$ 16,357,444

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:

	June 30, 2017	December 31, 2016
Warranty accrual, beginning of the fiscal period	\$ 222,845	\$ 316,835
Accrual adjustment for product warranty	35,228	103,743
Payments made	(76,765)	(197,733)
Warranty accrual, end of the fiscal period	\$ 181,308	\$ 222,845

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

None.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our financial statements and notes thereto included in this report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2016. 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, 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 robotic 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* Remote Magnetic Navigation System (*Niobe* 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. The core components of the *Niobe* system have received regulatory clearance in the U.S., Canada, Europe, China, Japan and various other countries. As of June 30, 2017, the Company had an installed base of 128 *Niobe* ES systems.

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* 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 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 have alliances with each of Biosense Webster, Inc., Philips Medical Systems, and Siemens AG Medical Solutions, through which we integrate our *Niobe* system with their respective digital imaging and 3D catheter location sensing technology, as well as disposable interventional devices. The maintenance of such alliances, or the establishment of equivalent alternatives, is critical to our

commercialization efforts. The commercial availability of currently compatible digital imaging fluoroscopy systems is unlikely to continue indefinitely and efforts are being made to ensure the availability of integrated next generation systems and/or equivalent alternatives; however, we cannot assure as to the timeline of the ongoing availability of such compatible systems or our ability to obtain equivalent alternatives on competitive terms or at all.

The Company believes the cash on hand at June 30, 2017 and expected borrowing capacity available will be sufficient to meet its obligations as they become due in the ordinary course of business for at least 12 months following the date these financial statements are issued. This evaluation assumes the Company is able to renew and has the ability to borrow under its asset based revolving credit facility which matures on March 31, 2018. The Company expects to be able to renew this facility at similar terms, as it has successfully done so in the past. There is no assurance that the revolving credit facility will be renewed in a timely manner, in amounts that are sufficient to meet the Company's obligations as they become due, or on terms acceptable to the Company, or at all. The Company has sustained operating losses throughout its corporate history and expects that its 2017 expenses will exceed its 2017 gross margin. The Company expects to continue to incur operating losses and negative cash flows until revenues reach a level sufficient to support ongoing operations or expense reductions are in place. Accordingly, management has analyzed its planned operations to evaluate the Company's ability to continue as a going concern. The Company's liquidity needs will be largely determined by the success of clinical adoption within the installed base of *Niobe* systems as well as by new placements of capital systems. The Company's plans for improving its liquidity conditions, which are probable of effectively being implemented, primarily include its ability to control the timing and spending of its operating expenses and raising additional funds through capital transactions. Specifically, cash outflows for operating expenses could be reduced or delayed by transitioning certain cash payments to stock payments, by reducing project expenses, or by reducing headcount. The Company also may consider raising cash through capital transactions, which could include either debt or equity financing.

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, 2016.

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 June 30, 2017 and 2016

Revenue. Revenue increased from \$7.9 million for the three months ended June 30, 2016 to \$8.5 million for the three months ended June 30, 2017, an increase of 8%. Revenue from the sale of systems increased from \$0.9 million to \$1.8 million, an increase of approximately 95%, primarily due to increased sales volumes. We recognized revenue on one *Niobe* system and a total of \$0.8 million for *Odyssey* systems during the 2017 period. System revenue for the prior period included \$0.3 million for *Niobe* system installations, \$0.5 million for *Odyssey* and *Odyssey Cinema* systems, and \$0.1 million for *Vdrive* system installations. Revenue from sales of disposable interventional devices, service and accessories decreased to \$6.6 million for the three months ended June 30, 2017 from \$6.9 million for the three months ended June 30, 2016, a decrease of approximately 4% due to lower disposable unit sales.

Cost of Revenue. Cost of revenue increased to \$2.2 million for the three months ended June 30, 2017 from \$1.1 million for the three months ended June 30, 2016. As a percentage of our total revenue, overall gross margin decreased to 74% for the three months ended June 30, 2017 from 86% for the three months ended June 30, 2016. Cost of revenue for systems sold increased from \$0.4 million for the three months ended June 30, 2016 to \$0.9 million for the three months ended June 30, 2017. Gross margin for systems decreased to 50% for the three months ended June 30, 2017 from 58% for the three months ended June 30, 2016 due to lower margins within the *Odyssey* product line. Cost of revenue for disposables, service, and accessories increased to \$1.3 million for the three months ended June 30, 2017 from \$0.7 million for the three months ended June 30, 2016, driven by higher expenses incurred under service contracts in the current year period. Gross margin for disposables, service, and accessories was 81% for the current quarter compared to 90% for the three months ended June 30, 2016.

Research and Development Expenses. Research and development expenses decreased from \$1.4 million for the three months ended June 30, 2016 to \$1.3 million for the three months ended June 30, 2017, a decrease of approximately 10%. This decrease was primarily due to lower headcount costs.

Sales and Marketing Expenses. Sales and marketing expenses decreased from \$4.2 million for the three months ended June 30, 2016 to \$3.5 million for the three months ended June 30, 2017, a decrease of approximately 18%. This decrease was primarily due to lower headcount costs and related travel expenses.

General and Administrative Expenses. General and administrative expenses include regulatory, clinical, finance, information systems, legal, general management and routine training expenses. General and administrative expenses decreased from \$2.8 million for the three months ended June 30, 2016 to \$1.9 million for the three months ended June 30, 2017, a decrease of approximately 30%. This decrease was primarily driven by lower headcounts costs and administrative costs.

Other Income (Expense). Other income (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.

Interest Expense. Interest expense decreased from \$0.8 million for the three months ended June 30, 2016 to less than \$0.1 million for the three months ended June 30, 2017 due to the extinguishment of the Healthcare Royalty Partners debt.

Comparison of the Six Months Ended June 30, 2017 and 2016

Revenue. Revenue decreased from \$16.5 million for the six months ended June 30, 2016 to \$15.4 million for the six months ended June 30, 2017, a decrease of approximately 7%. Revenue from the sale of systems decreased from \$3.0 million to \$2.0 million, a decrease of approximately 32%, primarily due to lower *Niobe* installation revenue and decreased sales volumes in the *Odyssey* product line. We recognized revenue on one *Niobe* system, and a total of \$1.0 million on *Odyssey* and *Odyssey Cinema* systems during the 2017 period. System revenue for the prior year period included revenue on one *Niobe* system, a total of \$1.4 million on *Odyssey* and *Odyssey Cinema* systems, and a total of \$0.1 million on *Vdrive* system installations. Revenue from sales of disposable interventional devices, service and accessories decreased to \$13.4 million for the six months ended June 30, 2017 from \$13.5 million for the six months ended June 30, 2016, a decrease of approximately 1%.

Cost of Revenue. Cost of revenue increased from \$3.3 million for the six months ended June 30, 2016 to \$3.5 million for the six

months ended June 30, 2017, an increase of approximately 6%. As a percentage of our total revenue, overall gross margin decreased to 78% for the six months ended June 30, 2017 compared to 80% during the same six month period of the prior year due to change in product mix and higher costs incurred on service contracts in the current year period. Cost of revenue for systems sold decreased from \$1.5 million for the six months ended June 30, 2016 to \$1.1 million for the six months ended June 30, 2017, a decrease of approximately 23%, primarily due to decreased system sales volumes and installations across all product lines. Gross margin for systems decreased from 51% for the six months ended June 30, 2016 to 44% for the six months ended June 30, 2017 due to lower margins within the *Odyssey* product line. Cost of revenue for disposables, service and accessories increased to \$2.3 million during the 2017 period from \$1.8 million during the 2016 period, resulting in a decrease in gross margin to 83% from 87% between these periods driven by higher expenses incurred under service contracts in the current year period.

Research and Development Expenses. Research and development expenses decreased from \$2.9 million for the six months ended June 30, 2016 to \$2.4 million for the six months ended June 30, 2017, a decrease of approximately 16%. This decrease was due to lower headcount costs, reduced project based expenses, and lower rent.

Sales and Marketing Expenses. Sales and marketing expenses decreased from \$8.1 million for the six months ended June 30, 2016 to \$7.1 million for the six months ended June 30, 2017, a decrease of approximately 12%. This decrease was due to lower headcount and reduced rent.

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 \$4.8 million for the six months ended June 30, 2017 from \$5.4 million for the six months ended June 30, 2016, a decrease of 11%. This decrease was primarily driven by lower headcount costs and lower expense for consulting, administrative and rent.

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 decreased from \$1.6 million for the six months ended June 30, 2016 to \$0.1 million for the six months ended June 30, 2017 due to the extinguishment of the Healthcare Royalty Partners debt.

Liquidity and Capital Resources

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents. At June 30, 2017 we had \$5.0 million of cash and equivalents. We had working capital deficits of \$14.6 million and \$16.2 million as of June 30, 2017 and December 31, 2016, respectively. The decrease in the working capital deficit was primarily driven by the revaluation of the warrants issued with the convertible preferred stock transaction, partially offset by the first half operating loss. At June 30, 2017 these and other warrants were recorded as a current liability in the amount of \$16.4 million as compared to \$19.8 million as of December 31, 2016. See Footnote 11 for additional details.

The following table summarizes our cash flow by operating, investing and financing activities for the six months ended June 30, 2017 and 2016 (in thousands):

Six Months Ended June 30,	
2017	2016

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Cash flow used in operating activities	\$ (3,381)	\$ (4,609)
Cash flow used in investing activities	(4)	
Cash flow provided by (used in) financing activities	(81)	2,874

Net cash used in operating activities. We used approximately \$3.4 million and \$4.6 million of cash for operating activities during the six months ended June 30, 2017 and 2016, respectively. The decrease in cash used in operating activities was driven by reduced operating losses and interest expense partially offset by changes in working capital.

Net cash used in investing activities. We used approximately \$4,000 of cash during the six month period ended June 30, 2017 for the purchases of equipment, and there were no purchases of equipment for the six month period ended June 30, 2016.

Net cash provided by (used in) financing activities. We used approximately \$81,000 of cash for the six month periods ended June 30, 2017, compared to approximately \$2.9 million generated for the six month period ended June 30, 2016. The cash used for the

six months ended June 30, 2017 was driven by payments of deferred financing costs. The cash generated for the six months ended June 30, 2016 was primarily driven by borrowings against our revolving line of credit.

The Company believes the cash on hand at June 30, 2017 and expected borrowing capacity available will be sufficient to meet its obligations as they become due in the ordinary course of business for at least 12 months following the date these financial statements are issued. This evaluation assumes the Company is able to renew and borrow under its asset based revolving credit facility which matures on March 31, 2018. The Company expects to be able to renew this facility at similar terms, as it has successfully done so in the past. There is no assurance that the revolving credit facility will be renewed in a timely manner, in amounts that are sufficient to meet the Company's obligations as they become due, or on terms acceptable to the Company, or at all. The Company has sustained operating losses throughout its corporate history and expects that its 2017 expenses will exceed its 2017 gross margin. The Company expects to continue to incur operating losses and negative cash flows until revenues reach a level sufficient to support ongoing operations or expense reductions are in place. The Company's liquidity needs will be largely determined by the success of clinical adoption within the installed base of *Niobe* systems as well as by new placements of capital systems. The Company's plans for improving its liquidity conditions, which are probable of effectively being implemented, primarily include its ability to control the timing and spending of its operating expenses and raising additional funds through capital transactions. Specifically, cash outflows for operating expenses could be reduced or delayed by transitioning certain cash payments to stock payments, by reducing project expenses, or by reducing headcount. The Company also may consider raising cash through capital transactions, which could include either debt or equity financing.

Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with cash resources primarily generated from the proceeds of our past and future public offerings, private sales of our equity securities and working capital and equipment financing loans. In the future, we may finance cash needs through the sale of other equity securities or non-core assets, strategic collaboration agreements, debt financings or through distribution rights. We cannot assure you that such additional financing will be available on a timely basis on terms acceptable to us or at all, that we will be able to engage in equity financings because our common stock is no longer listed on a national securities exchange, 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 June 30, 2017, our borrowing facilities were comprised of a revolving line of credit maintained with our primary lender, Silicon Valley Bank.

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 \$10.0 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 amended on March 27, 2015, extending the maturity date to March 31, 2018 and on May 10, 2016, the Company and the primary lender agreed to modify certain financial covenants. The amended 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 \$24.0 million for the quarters ended June 30, 2016, September 30, 2016, December 31, 2016, March 31, 2017, June 30,

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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 June 30, 2017, the Company is in compliance with its loan covenants.

As of June 30, 2017, the Company had no outstanding balance under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one week in arrears. As of June 30, 2017, the Company had a borrowing capacity of \$3.9 million based on the Company's collateralized assets. The Company's total liquidity as of June 30, 2017, was \$8.9 million which included cash and cash equivalents of \$5.0 million.

Healthcare Royalty Partners Debt

In November 2011, we entered into a loan agreement with Healthcare Royalty Partners. Under the agreement the Company borrowed \$15 million from Healthcare Royalty Partners. 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 nine months ended June 30, 2012. On January 31, 2013, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* ES system sales for the twelve months ended December 31, 2012. The loan was to 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 was entitled to receive 100% of all royalties due to the Company under the Biosense Agreement until the loan was repaid. The loan was a full recourse loan, scheduled to mature on December 31, 2018, and included 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 were insufficient to pay all amounts of interest due on the loan, then such deficiency would have increased the outstanding principal amount on the loan. The loan was also secured by certain assets and intellectual property of the Company. The agreement also contained customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender.

In September 2016, the Company extinguished the remainder of the debt of \$18.1 million, net of deferred financing costs of approximately \$0.3 million, as well as accrued interest of \$0.5 million for \$13.0 million based upon an agreement entered into with Healthcare Royalty Partners. Following the repayment of the loan obligation, the royalties under the Biosense Agreement are now paid to the Company. As a result of the debt extinguishment, the Company recognized a net gain of \$5.6 million in 2016.

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 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 June 30, 2017.

Convertible Preferred Stock and Warrants

On September 26, 2016, the Company entered into a Securities Purchase Agreement with certain institutional and other accredited investors whereby it agreed to sell, for an aggregate purchase price of \$24.0 million, (i) an aggregate of 24,000 shares of Series A Convertible Preferred Stock, par value \$0.001 with a stated value of \$1,000 per share which are convertible into shares of the Company's common stock and (ii) warrants to purchase an aggregate of 36,923,078 shares of common stock. The transaction closed on September 29, 2016.

The Company received net proceeds from the sale of the convertible preferred stock and warrants of \$23.0 million, after offering expenses. The Company used \$13.0 million of the funds to satisfy in full all amounts outstanding under the Loan Agreement with Healthcare Royalty Partners, as noted above, and anticipates using the remaining proceeds for general corporate purposes.

The designations, preferences, powers and rights of the convertible preferred shares are set forth in a Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock (Certificate of Designations) filed with the Delaware Secretary of State. The convertible preferred shares are entitled to vote on an as-converted basis with the common stock, subject to specified beneficial ownership issuance limitations. The convertible preferred shares bear dividends at a rate of six percent (6%) per annum, which are cumulative and accrue daily from the date of issuance on the \$1,000 stated value. Such dividends will not be paid in cash except in connection with any liquidation, dissolution or winding up of the Company or any redemption of the convertible preferred shares. Instead the value of the accrued

dividends is added to the liquidation preference of the convertible preferred shares and will increase the number of shares of common stock issuable upon conversion. Each convertible preferred share is convertible at the option of the holder from and after the date of issuance with no expiration date, at an initial conversion price of \$0.65 per share, subject to adjustment in the event of stock splits, dividends, mergers, sales of all or substantially all of our assets or similar transactions, subject to specified beneficial ownership issuance limitations. Each holder of convertible preferred shares has the right to require us to redeem such holder's convertible preferred shares upon the occurrence of specified events, which include certain business combinations, the sale of all or substantially all of the Company's assets or the sale of more than 50% of the outstanding shares of the Company's common stock. In addition, the Company has the right to redeem the convertible preferred shares in the event of a change of control as defined in the Certificate of Designations.

The convertible preferred shares rank senior to our common stock as to distributions and payments upon the liquidation, dissolution and winding up of the Company. No such distributions or payments upon the liquidation, dissolution and winding up of the Company may be made to the holders of common stock unless and until the holders of convertible preferred shares have received the stated value of \$1,000 per share plus any accrued and unpaid dividends. Until all convertible preferred shares have been converted or redeemed, no dividends may be paid on the common stock without the express written consent of the holders of a majority of the

outstanding convertible preferred shares. In the event that dividends or other distributions of assets are made or paid by the Company to the holders of the common stock, the holders of convertible preferred shares are entitled to participate in such dividend or distribution on an as-converted basis.

On the date of the issuance, the fair value of the convertible preferred stock was greater than the allocated proceeds received for the Series A Convertible Preferred Stock. As such, the Company accounted for the beneficial conversion feature under ASC 470-20, Debt with Conversion feature under ASC 470-20, Debt with Conversion and Other Options. The Company recorded a deemed dividend charge of \$6.1 million for the accretion of a discount on the Series A Convertible Preferred Stock. The deemed dividend was a non-cash transaction and was reflected below net loss to arrive at net loss available to common stockholders in 2016. Since the convertible preferred shares are subject to conditions for redemption that are outside the Company's control, the convertible preferred shares are presently reported in the mezzanine section of the balance sheet.

The warrants issued in conjunction with the convertible preferred stock have an exercise price equal to \$0.70 per share subject to adjustments as provided under the terms of the warrants. The warrants are exercisable through September 29, 2021, subject to specified beneficial ownership issuance limitations. The warrants may be exercised by any holder on a cashless basis if, at any time after the date that is 180 days after the closing, the registration statement required by the Registration Rights Agreement is not effective and available for resale of all of the shares of common stock issuable upon exercise of such holder's warrants. Due to the fact that the warrants are puttable upon the occurrence of certain events outside of the Company's control, the warrants qualify as liabilities under ASC 480-10. 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 income (expense) in the Statements of Operations. See Note 11 for additional details.

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 paid Cantor a commission of 3.0% of the gross proceeds from any common stock sold through the Sales Agreement.

There were no proceeds from the Controlled Equity Offering during the twelve months ended December 31, 2016. The Sales Agreement expired in November 2016 upon the expiration of our Registration Statement on Form S-3.

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. [RESERVED]

None.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Additional Risk Factors are discussed in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

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: August 10, 2017

By: /s/ David L. Fischel
David L. Fischel

Acting Chief Executive Officer

Date: August 10, 2017

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

Chief Financial Officer

EXHIBIT INDEX

Number	Description
3.1	Restated Certificate of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-Q (file No. 000-50884) for the fiscal quarter ended September 30, 2004.
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (File No. 000-50884) filed on July 10, 2012.
3.3	Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K (file No. 001-36159) filed on September 30, 2016.
3.4	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	Amended and Restated Stereotaxis, Inc. 2012 Stock Incentive Plan, as adopted February 22, 2017, 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.