

Stereotaxis, Inc.
Form 10-Q
May 11, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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

For the transition period from _____ to _____

Commission File Number: 001-36159

STEREOTAXIS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of

94-3120386
(I.R.S. employer

Incorporation)

identification no.)

4320 Forest Park Avenue Suite 100

St. Louis, Missouri
(Address of principal executive offices)

63108
(Zip Code)

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☒

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

The number of outstanding shares of the registrant's common stock on April 29, 2016 was 21,758,330.

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	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,602,951	\$ 5,593,582
Accounts receivable, net of allowance of \$155,964 and \$93,478 in 2016 and 2015, respectively	6,397,660	6,376,470
Inventories	4,446,363	4,504,282
Prepaid expenses and other current assets	1,150,631	668,659
Total current assets	13,597,605	17,142,993
Property and equipment, net	969,927	1,067,321
Intangible assets, net	586,059	635,889
Other assets	32,341	31,693
Total assets	\$ 15,185,932	\$ 18,877,896
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	\$ 2,042,246	\$ 1,840,135
Accrued liabilities	5,245,395	6,058,390
Deferred revenue	6,627,020	7,445,935
Warrants and debt conversion features	762,836	794,130
Total current liabilities	14,677,497	16,138,590
Long-term debt	18,078,308	18,080,159
Long-term deferred revenue	1,782,155	2,009,198
Other liabilities	270,433	275,603
Total liabilities	34,808,393	36,503,550
Stockholders' deficit:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized, none outstanding at 2016 and 2015		
Common stock, par value \$0.001; 300,000,000 shares authorized, 21,738,923 and 21,551,173, shares issued at 2016 and 2015, respectively	21,739	21,551
Additional paid in capital	448,794,778	448,517,472
Treasury stock, 4,015 shares at 2016 and 2015	(205,999)	(205,999)
Accumulated deficit	(468,232,979)	(465,958,678)
Total stockholders' deficit	(19,622,461)	(17,625,654)

Total liabilities and stockholders' deficit	\$ 15,185,932	\$ 18,877,896
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See accompanying notes.

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STEREOTAXIS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Revenue:		
Systems	\$ 2,075,019	\$ 2,831,178
Disposables, service and accessories	6,572,987	6,699,848
Total revenue	8,648,006	9,531,026
Cost of revenue:		
Systems	1,083,099	1,400,267
Disposables, service and accessories	1,097,715	1,230,370
Total cost of revenue	2,180,814	2,630,637
Gross margin	6,467,192	6,900,389
Operating expenses:		
Research and development	1,473,086	1,485,706
Sales and marketing	3,894,113	4,034,371
General and administrative	2,586,791	2,794,590
Total operating expenses	7,953,990	8,314,667
Operating loss	(1,486,798)	(1,414,278)
Other income (expense)	31,294	(892,377)
Interest income	222	862
Interest expense	(819,019)	(829,788)
Net loss	\$ (2,274,301)	\$ (3,135,581)
Net loss per common share:		
Basic	\$ (0.11)	\$ (0.15)
Diluted	\$ (0.11)	\$ (0.15)
Weighted average shares used in computing net loss per common share:		
Basic	21,611,612	20,742,932
Diluted	21,611,612	20,742,932

See accompanying notes.

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STEREOTAXIS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net loss	\$ (2,274,301)	\$ (3,135,581)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	97,394	70,256
Amortization of intangibles	49,830	74,959
Amortization of deferred finance costs	54,937	55,793
Share-based compensation	270,102	326,444
Adjustment of warrants	(31,294)	892,377
Changes in operating assets and liabilities:		
Accounts receivable	(21,190)	(1,256,119)
Inventories	57,919	(4,179)
Prepaid expenses and other current assets	(407,930)	92,225
Other assets	(648)	35,983
Accounts payable	202,111	250,495
Accrued liabilities	(812,995)	(263,221)
Deferred revenue	(1,045,958)	(352,450)
Other liabilities	(5,170)	(75,682)
Net cash used in operating activities	(3,867,193)	(3,288,700)
Cash flows from investing activities		
Purchase of equipment		(52,410)
Net cash used in investing activities		(52,410)
Cash flows from financing activities		
Payments of deferred financing costs	(100,000)	
Proceeds from (payments to) Healthcare Royalty Partners debt	(30,830)	(68,869)
Proceeds from issuance of stock, net of issuance costs	7,392	578,211
Net cash provided by (used in) financing activities	(123,438)	509,342
Net increase (decrease) in cash and cash equivalents	(3,990,631)	(2,831,768)
Cash and cash equivalents at beginning of period	5,593,582	7,270,301
Cash and cash equivalents at end of period	\$ 1,602,951	\$ 4,438,533

See accompanying notes.

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Notes to Financial Statements

In this report, Stereotaxis, the Company, Registrant, we, us, and our refer to Stereotaxis, Inc. and its wholly owned subsidiaries. Epoch®, Niobe®, Odyssey®, Odyssey Cinema, Vdrive®, Vdrive Duo, V-CAS, V-Loop, V-Sono, QuikCAS, Cardiodrive®, and Pegasus are trademarks of Stereotaxis, Inc. All other trademarks that appear in this report are the property of their respective owners.

1. Description of Business

Stereotaxis designs, manufactures, and markets the Epoch® Solution, an advanced remote robotic navigation system for use in a hospital's interventional surgical suite or interventional lab, that we believe revolutionizes the treatment of arrhythmias and coronary artery disease by enabling enhanced safety, efficiency, and efficacy for catheter-based or interventional procedures. The Epoch Solution is comprised of the Niobe® ES Magnetic Navigation System (Niobe ES system), Odyssey® Information Management Solution (Odyssey Solution), and the Vdrive® Robotic Navigation System (Vdrive system) and related devices.

The Niobe ES system is designed to enable physicians to complete more complex interventional procedures by providing image-guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures, and reduced X-ray exposure.

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

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

We promote the full Epoch Solution in a typical hospital implementation, subject to regulatory approvals or clearances. The full Epoch Solution implementation requires a hospital to agree to an upfront capital payment and recurring payments. The upfront capital payment typically includes equipment and installation charges. The recurring payments typically include disposable costs for each procedure, equipment service costs beyond the warranty period, and software licenses. In hospitals where the full Epoch Solution has not been implemented, equipment upgrade or expansion may be implemented upon purchase of the necessary components. As of March 31, 2016, the Company has an installed base of 126 Niobe ES systems.

The core components of Stereotaxis' systems have received regulatory clearance in the United States, European Union, Canada, China, Japan and various other countries. We have received regulatory clearance, licensing and/or CE Mark approvals necessary for 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. We have received Food and Drug Administration (FDA) clearance and the CE Mark necessary for us to market our suite of Pegasus' coronary peripheral guidewires in the United States and Europe.

Since our inception, we have generated significant losses. As of March 31, 2016, we incurred cumulative net losses of approximately \$468.2 million. In 2016, the Company plans to continue developing the *Niobe* ES system with the goal of furthering clinical adoption and new system placements. We expect to incur additional losses into 2016 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund additional sales and marketing initiatives. During 2016, we will continue to monitor operating expenses and make additional investment in certain targeted areas.

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

Our existing cash, cash equivalents, and borrowing facilities may not be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months, which would require us to obtain additional financing. We may be required to raise capital or pursue other financing strategies to continue our operations. Until we can generate significant cash flow from our operations, we expect to continue to fund our operations with cash resources primarily generated from the proceeds of our past and future public offerings, private sales of our equity securities, and loans collateralized by working capital and equipment. We continue to explore financing alternatives, which may include the sale of equity securities or non-core assets, strategic collaboration agreements, debt financings, or distribution rights. We cannot accurately predict the timing and amount of our utilization of capital, which will depend on a number of factors outside of our control.

We cannot assure that additional financing will be available on acceptable terms or that such financing will not be dilutive to our stockholders. If adequate funds are not available to us, we could be required to delay development or commercialization of new products, to license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize ourselves, or to reduce the sales, marketing, customer support or other resources devoted to our products, any of which could have a material adverse effect on our business, financial condition, and operational results. In addition, we could be required to cease operations.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements of Stereotaxis, Inc. have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, they include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Operating results for the three month period ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016 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, 2015 as filed with the Securities and Exchange Commission (SEC) on March 11, 2016.

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. See Note 9 for disclosure of the fair value of debt.

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.

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Under our revenue recognition policy, a portion of revenue for *Niobe* systems, *Vdrive* systems and certain *Odyssey* systems is recognized upon delivery, provided that title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. Revenue is recognized for other types of *Odyssey* systems upon completion of installation, since there are no qualified third party installers. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since these arrangements do not include an installation element or right of return privileges. The Company does not recognize revenue in situations in which inventory remains at a Stereotaxis warehouse or in situations in which title and risk of loss have not transferred to the customer. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multiple-deliverable arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and establish an appropriate reserve for returns. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimis effect on revenue recognized in the period. We believe that the estimate is not likely to change significantly in the future.

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

Share-Based Compensation

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

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

Net Earnings (Loss) per Common Share (EPS)

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

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

	Three months ended March 31,	
	2016	2015
Numerator:		
Numerator for basic EPS	\$ (2,274,301)	\$ (3,135,581)
Numerator for diluted EPS	\$ (2,274,301)	\$ (3,135,581)
Denominator:		
Denominator for basic EPS weighted average shares	21,611,612	20,742,932
Denominator for diluted EPS weighted average shares	21,611,612	20,742,932
Basic EPS	\$ (0.11)	\$ (0.15)
Diluted EPS	\$ (0.11)	\$ (0.15)

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

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As of March 31, 2016, the Company had 695,117 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of \$9.32 per share, 2,040,365 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$3.44 per share, and 1,271,276 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 is evaluating the impact of this guidance on its financial statements and related disclosures.

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 November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): To simplify the presentation of deferred income taxes . The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. This standard is effective for public companies for financial statements issued for annual periods beginning after December 15, 2016 (January 1, 2017 for the Company), and interim periods within those annual periods. We adopted this accounting standard update in 2015 and there was no impact to the results of operations 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. We are currently evaluating the impact of adopting this accounting standard update but do not expect this to significantly impact the results of operations, financial conditions, cash flows, or financial statement presentation.

In April 2015, the FASB issued ASU No. 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs . To simplify the presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount. In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update), which adds the SEC staff's guidance on the presentation of debt issuance costs associated with lines of credit to the Codification. The SEC staff stated it will not object to an entity presenting the costs of securing line-of-credit arrangements as an asset, regardless of whether there are any outstanding borrowings. The Standard is effective for financial statements issued for fiscal years beginning after December 15, 2015 (January 1, 2016 for the Company), and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued. We have adopted this accounting standard update. The Company's balance sheets as of March 31, 2016 and December 31, 2015 included \$320,039 and \$349,018, respectively, of deferred financing costs (excluding \$100,000 and \$25,960, respectively, related to line-of-credit arrangements) that were, under the new guidance, presented as a direct reduction to debt liabilities.

In August 2014, the FASB issued ASU No. 2014-15, to communicate amendments to FASB Account Standards Codification Subtopic 205-40, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern . The ASU requires

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management to evaluate relevant conditions, events and certain management plans that are known or reasonably knowable as of the evaluation date when determining whether substantial doubt about an entity's ability to continue as a going concern exists. Management will be required to make this evaluation for both annual and interim reporting periods. Management will have to make certain disclosures if it concludes that substantial doubt exists and when it plans to alleviate substantial doubt about the entity's ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016 and for interim reporting periods starting in the first quarter of 2017 (December 31, 2016 for the Company). Early adoption is permitted. We are currently evaluating the impact of adopting this accounting standard update on our financial statement disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" which converges the FASB's and the International Accounting Standards Board's current standards on revenue recognition. The standard provides companies with a single model to use in accounting for revenue arising from contracts with customers and supersedes current revenue guidance. The standard is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. The standard permits companies to either apply the adoption to all periods presented, or apply the requirements in the year of adoption through a cumulative adjustment. In April 2015, the FASB issued an exposure draft related to the deferral of the effective date, which would delay our effective date one year. Therefore, the standard would be effective for annual and interim periods beginning after December 15, 2017 (January 1, 2018 for the Company). We are currently evaluating the impact of adopting this accounting standard update on our financial statements and disclosures and have not concluded on an adoption method.

3. Inventories

Inventories consist of the following:

	March 31, 2016	December 31, 2015
Raw materials	\$ 2,354,810	\$ 2,065,676
Work in process	427,952	24,758
Finished goods	1,702,100	2,433,819
Reserve for obsolescence	(38,499)	(19,971)
Total inventory	\$ 4,446,363	\$ 4,504,282

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	March 31, 2016	December 31, 2015
Prepaid expenses	\$ 675,820	\$ 454,822
Deferred financing costs	100,000	25,960
Deposits	312,713	136,583
Deferred cost of revenue	94,439	82,987
Total prepaid expenses and other assets	1,182,972	700,352
	(32,341)	(31,693)

Less: Noncurrent prepaid expenses and other assets

Total current prepaid expenses and other assets	\$ 1,150,631	\$ 668,659
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Certain prior year amounts have been reclassified to conform to the 2016 presentation.

5. Property and Equipment

Property and equipment consist of the following:

	March 31, 2016	December 31, 2015
Equipment	\$ 8,496,636	\$ 8,496,636
Equipment held for lease	303,412	303,412
Leasehold improvements	2,320,368	2,320,368
	11,120,416	11,120,416
Less: Accumulated depreciation	(10,150,489)	(10,053,095)
Net property and equipment	\$ 969,927	\$ 1,067,321

6. Intangible Assets

As of March 31, 2016, the Company had total intangible assets of \$3,221,069. Accumulated amortization at March 31, 2016, was \$2,635,010.

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Accrued liabilities consist of the following:

	March 31, 2016	December 31, 2015
Accrued salaries, bonus, and benefits	\$ 2,266,158	\$ 3,053,012
Accrued rent	1,263,383	1,361,379
Accrued licenses and maintenance fees	660,781	666,373
Accrued interest	493,876	494,703
Accrued warranties	302,362	316,835
Accrued taxes	335,102	324,226
Other	194,166	117,465
 Total accrued liabilities	 5,515,828	 6,333,993
Less: Long term accrued liabilities	(270,433)	(275,603)
 Total current accrued liabilities	 \$ 5,245,395	 \$ 6,058,390

Our primary company facilities are located in St. Louis, Missouri where we currently lease approximately 52,000 square feet of office and 12,000 square feet of demonstration and assembly space. In the third quarter of 2013, the Company modified the existing lease agreement to terminate approximately 13,000 square feet of unimproved space. The costs associated with the termination were \$515,138 and were accrued as a rent liability as of September 30, 2013. As of March 31, 2016, the remaining accrued costs associated with the termination were \$258,995.

In the fourth quarter of 2015, the Company entered a sublease agreement to sublease 3,152 square feet of the first floor office space through December 31, 2018.

8. Deferred Revenue

Deferred revenue consists of the following:

	March 31, 2016	December 31, 2015
Product shipped, revenue deferred	\$ 455,314	\$ 366,388
Customer deposits	1,050,000	2,505,000
Deferred service and license fees	6,903,861	6,583,745
 Total deferred revenue	 8,409,175	 9,455,133
Less: Long-term deferred revenue	(1,782,155)	(2,009,198)
 Total current deferred revenue	 \$ 6,627,020	 \$ 7,445,935

9. Long-Term Debt and Credit Facilities

Debt outstanding consists of the following:

	March 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Healthcare Royalty Partners debt	\$ 18,078,308	\$ 18,398,347	\$ 18,080,159	\$ 18,429,177
Less current maturities				
Total long term debt	\$ 18,078,308	\$ 18,398,347	\$ 18,080,159	\$ 18,429,177

In accordance with general accounting principles for fair value measurement, the Company's debt and credit facilities were measured at fair value as of March 31, 2016 and December 31, 2015. Long-term debt fair value estimates are based on estimated borrowing rates to discount the cash flows to their present value (Level 3).

Certain prior year amounts have been reclassified to conform to the 2016 presentation.

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Revolving Line of Credit

The Company has had a working capital line of credit with its primary lender, Silicon Valley Bank, since 2004. The revolving line of credit is secured by substantially all of the Company's assets. The maximum available under the line is \$10 million subject to the value of collateralized assets. The Company is required under the revolving line of credit to maintain its primary operating account and the majority of its cash and investment balances in accounts with its primary lender. The facility was 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 March 31, 2016, the Company had no outstanding debt under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one week in arrears. As of March 31, 2016, the Company had a borrowing capacity of \$4.9 million based on the Company's collateralized assets, and cash and cash equivalents of \$1.6 million for a total liquidity of \$6.5 million.

Healthcare Royalty Partners Debt

In November 2011, the Company entered into a loan agreement with Healthcare Royalty Partners. Under the agreement the Company borrowed from Healthcare Royalty Partners \$15 million. The Company was permitted to borrow up to an additional \$5 million in the aggregate based on the achievement by the Company of certain milestones related to *Niobe* ES system sales in 2012. On August 8, 2012, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* ES system sales for the three months ended June 30, 2012. On January 31, 2013, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* ES system sales for the twelve months ended December 31, 2012. The loan will be repaid through, and secured by, royalties payable to the Company under its Development, Alliance and Supply Agreement with Biosense Webster, Inc. (the Biosense Agreement). The Biosense Agreement relates to the development and distribution of magnetically enabled catheters used with Stereotaxis' *Niobe* ES system in cardiac ablation procedures. Under the terms of the agreement, Healthcare Royalty Partners will be entitled to receive 100% of all royalties due to the Company under the Biosense Agreement until the loan is repaid. The loan is a full recourse loan, matures on December 31, 2018, and bears interest at an annual rate of 16% payable quarterly with royalties received under the Biosense Agreement. If the payments received by the Company under the Biosense Agreement are insufficient to pay all amounts of interest due on the loan, then such deficiency will increase the outstanding principal amount on the loan. After the loan obligation is repaid, the royalties under the Biosense Agreement will again be paid to the Company. The loan is also secured by certain assets and intellectual property of the Company. The agreement also contains customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender.

10. Stockholders' Equity

The holders of common stock are entitled to one vote for each share held and to receive dividends whenever funds are legally available and when declared by the Board of Directors subject to the prior rights of holders of all classes of stock having priority rights as dividends and the conditions of the revolving line of credit agreement. Since the Company's inception, no dividends have been declared or paid.

Controlled Equity Offering

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

There were no proceeds from the Controlled Equity Offering during the three months ended March 31, 2016. As of March 31, 2016, \$13.8 million of common stock remained available to be sold under this facility, subject to certain conditions as specified in the Sales Agreement.

Offerings of Common Stock

On October 8, 2015 the Company announced the results of its previously announced offering of transferable subscription warrants (the Warrants Offering) to holders of record of the Company's common stock. Pursuant to the Warrants Offering, subscription warrants to purchase 267,256 shares of common stock were exercised, resulting in gross proceeds to the Company of \$293,982.

Table of Contents***Stock Award Plans***

The Company has various stock plans that permit the Company to provide incentives to employees and directors of the Company in the form of equity compensation. In August 2012, the Board of Directors adopted the 2012 Stock Incentive Plan (the Plan) which was subsequently approved by the Company's shareholders. This plan replaced the 2002 Stock Incentive Plan which expired on March 25, 2012.

On June 5, 2013 and on June 10, 2014, the shareholders approved amendments to the Plan, which were previously approved and adopted by the Compensation Committee of the Board of Directors of the Company. Each of these amendments increased the number of shares authorized for issuance under the Plan by one million shares. At March 31, 2016, the Company had 46,051 remaining shares of the Company's common stock to provide for current and future grants under its various equity plans.

At March 31, 2016, the total compensation cost related to options, stock appreciation rights and non-vested stock granted to employees under the Company's stock award plans but not yet recognized was approximately \$2.3 million, net of estimated forfeitures of approximately \$0.7 million. This cost will be amortized over a period of up to four years over the underlying estimated service periods and will be adjusted for subsequent changes in estimated forfeitures and anticipated vesting periods.

A summary of the option and stock appreciation rights activity for the three month period ended March 31, 2016 is as follows:

	Number of Options/SARs	Range of Exercise Price	Weighted Average Exercise Price per Share
Outstanding, December 31, 2015	706,494	\$1.45 - \$116.40	\$ 9.34
Granted			
Exercised			
Forfeited	(11,377)	\$1.74 - \$36.20	\$ 9.98
Outstanding, March 31, 2016	695,117	\$1.45 - \$116.40	\$ 9.32

A summary of the restricted stock unit activity for the three month period ended March 31, 2016 is as follows:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value per Unit
Outstanding, December 31, 2015	752,008	\$ 2.63
Granted	700,600	\$ 0.78
Vested	(175,100)	\$ 3.00
Forfeited	(6,232)	\$ 2.73
Outstanding, March 31, 2016	1,271,276	\$ 1.56

11. Fair Value Measurements

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

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

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

		Fair Value Measurement Using		
		Quoted Prices in	Significant	
		Active	Other	
		Markets	Observable	Significant
		for Identical	Inputs	Unobservable
	Total	Instruments	(Level	Inputs
		(Level 1)	2)	(Level 3)
Assets at March 31, 2016:				
Cash equivalents	\$ 347,821	347,821		
Total assets at fair value	\$ 347,821	347,821		
Liabilities at March 31, 2016:				
Warrants issued May 2012	\$ 237,650			237,650
Warrants issued August 2013	\$ 525,186			525,186
Total liabilities at fair value:	\$ 762,836			762,836
Assets at December 31, 2015:				
Cash equivalents	\$ 524,083	524,083		
Total assets at fair value	\$ 524,083	524,083		
Liabilities at December 31, 2015:				
Warrants issued May 2012	\$ 143,681			143,681
Warrants issued August 2013	\$ 650,449			650,449
Total liabilities at fair value:	\$ 794,130			794,130

Level 1

The Company's financial assets consist of cash equivalents invested in money market funds in the amount of \$347,821 and \$524,083 at March 31, 2016 and December 31, 2015, respectively. These assets are classified as Level 1 as described above and total interest income recorded for these investments was insignificant during both the three month periods ended March 31, 2016, and March 31, 2015. There were no transfers in or out of Level 1 during the period ended March 31, 2016.

Level 2

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

Level 3

In conjunction with the Company's May 2012 and August 2013 financing transactions, the Company issued warrants to purchase shares of the Company's common stock. Due to the provisions included in the warrant agreements, the warrants did not meet the exemptions for equity classification and as such, the Company accounts for these warrants as derivative instruments. The calculated fair value of the warrants is classified as a liability and is periodically re-measured with any changes in value recognized in Other expense in the Statements of Operations.

The remaining warrants from the May 2012 transaction expire in May 2018 and were revalued as of March 31, 2016 using the following assumptions: 1) volatility of 113.14%; 2) risk-free interest rate of 0.73%; and 3) a closing stock price of \$1.10.

The remaining warrants from the August 2013 expire in November 2018 and were revalued as of March 31, 2016 using the following assumptions: 1) volatility of 110.74%; 2) risk-free interest rate of 0.87%; and 3) a closing stock price of \$1.10.

The significant unobservable input used in the fair value measurement of the Company's warrants is volatility. Significant increases (decreases) in the volatility in isolation would result in significantly higher (lower) liability fair value measurements.

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The following table sets forth a summary of changes in the fair value of the Company's Level 3 financial liabilities for the three month period ended March 31, 2016:

	Warrants issued May		Warrants issued August	Total Liabilities
	2012		2013	
Balance at beginning of period	\$	143,681	\$	650,449
Issues				
Settlements				
Revaluation		93,969	(125,263)	(31,294)
Balance at end of period	\$	237,650	\$	525,186
				\$ 762,836

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

12. Product Warranty Provisions

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

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

	March 31, 2016	December 31, 2015
Warranty accrual, beginning of the fiscal period	\$ 316,835	\$ 364,548
Accrual adjustment for product warranty	55,262	171,384
Payments made	(69,735)	(219,097)
Warranty accrual, end of the fiscal period	\$ 302,362	\$ 316,835

13. Commitments and Contingencies

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

14. Subsequent Events

On May 2, 2016, Stereotaxis, Inc. (the Company) received a determination letter from the Nasdaq Hearings Panel (the Panel) granting the Company's request for the continued listing of its common stock on The Nasdaq Capital Market (Nasdaq). The Company's continued listing on Nasdaq is subject to, among other things, the Company evidencing compliance with the minimum \$35 million market value of listed securities requirement (the Market Cap Requirement) by August 1, 2016. To satisfy the Market Cap Requirement, the Company must evidence a market value of listed securities of at least \$35 million for a minimum of ten consecutive business days on or before August 1, 2016. The Company is taking definitive steps to timely comply with the terms of the Panel's decision; however, there can be no assurance that it will be able to do so.

On May 10, 2016, Stereotaxis, Inc. (the Company) entered into an Eleventh Loan Modification Agreement (Domestic) with Silicon Valley Bank (the Bank) (Modification Agreement), further amending the terms of that certain Second Amended and Restated Loan and Security Agreement (Domestic) dated November 30, 2011, as amended (the Amended Loan Agreement), to modify the financial covenants under the Amended Loan Agreement by revising the tangible net worth covenant to require the Company to maintain a minimum tangible net worth of not less than (no worse than) negative \$24,000,000 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 \$24,500,000 for the quarters ended December 31, 2017 and March 31, 2018.

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

The following discussion and analysis should be read in conjunction with our financial statements and notes thereto included in this report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015. Operating results are not necessarily indicative of results that may occur in future periods.

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

Overview

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

The Niobe ES system is designed to enable physicians to complete more complex interventional procedures by providing image-guided delivery of catheters and guidewires through the blood vessels and chambers of the heart to treatment sites. This is achieved using externally applied magnetic fields that govern the motion of the working tip of the catheter or guidewire, resulting in improved navigation, efficient procedures, and reduced X-ray exposure.

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

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

We generate revenue from both the initial capital sale of the *Niobe*, *Odyssey*, and *Vdrive* systems as well as recurring revenue from the sale of our proprietary disposable devices, from ongoing license and service contracts, and from royalties paid to the Company by Biosense Webster for the sale of co-developed catheters. We market our products to a broad base of hospitals in the United States and internationally. As of March 31, 2016, the Company has an installed base of 126 *Niobe* ES systems.

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The core components of Stereotaxis' systems have received regulatory clearance in the United States, European Union, Canada, China, Japan, and elsewhere. We have received regulatory clearance, licensing and/or CE Mark approvals necessary for 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. We have received Food and Drug Administration (FDA) clearance and the CE Mark necessary for us to market our suite of Pegasus' coronary peripheral guidewires in the United States and Europe.

Since our inception, we have generated significant losses. As of March 31, 2016, we incurred cumulative net losses of approximately \$468.2 million. In 2016, the Company plans to continue developing the *Niobe* ES system with the goal of furthering clinical adoption and new system placements. We expect to incur additional losses into 2016 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund additional sales and marketing initiatives. During 2016, we will continue to monitor operating expenses and make additional investment in certain targeted areas.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. We review our estimates and judgments on an on-going basis. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We believe the following accounting policies are critical to the judgments and estimates we use in preparing our financial statements. For a complete listing of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2015.

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.

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Results of Operations

Comparison of the Three Months Ended March 31, 2016 and 2015

Revenue. Revenue decreased from \$9.5 million for the three months ended March 31, 2015 to \$8.6 million for the three months ended March 31, 2016, a decrease of 9%. Revenue from the sale of systems decreased from \$2.8 million to \$2.1 million, a decrease of approximately 27%, primarily due to decreased *Niobe* and *Vdrive* system sales volumes. We recognized revenue on one *Niobe* system and a total of \$0.9 million for *Odyssey* and *Odyssey Cinema* systems during the 2016 period. System revenue for the prior period included two *Niobe* systems, a total \$0.5 million for *Odyssey* and *Odyssey Cinema* systems, and \$0.3 million for *Vdrive* systems. Revenue from sales of disposable interventional devices, service and accessories decreased to \$6.6 million for the three months ended March 31, 2016 from \$6.7 million for the three months ended March 31, 2015, a decrease of approximately 2%.

Cost of Revenue. Cost of revenue decreased to \$2.2 million for the three months ended March 31, 2016 from \$2.6 million for the three months ended March 31, 2015. As a percentage of our total revenue, overall gross margin has increased to 75% for the three months ended March 31, 2016 from 72% for the three months ended March 31, 2015 due to a shift in mix from systems revenue to disposables, service and accessories revenue. Cost of revenue for systems sold decreased from \$1.4 million for the three months ended March 31, 2015 to \$1.1 million for the three months ended March 31, 2016. Gross margin for systems decreased to 48% for the three months ended March 31, 2016 from 51% for the three months ended March 31, 2015. This decrease was primarily due to a shift in product mix from *Niobe* systems to *Odyssey* systems. Cost of revenue for disposables, service and accessories decreased to \$1.1 million for the three months ended March 31, 2016 from \$1.2 million for the three months ended March 31, 2015. Gross margin for disposables, service and accessories was 83% for the current quarter compared to 82% for the three months ended March 31, 2015.

Research and Development Expenses. Research and development expenses have remained relatively consistent with the three months ended March 31, 2015 at \$1.5 million.

Sales and Marketing Expenses. Sales and marketing expenses decreased slightly from \$4.0 million for the three months ended March 31, 2015 to \$3.9 million for the three months ended March 31, 2016.

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 March 31, 2015 to \$2.6 million for the three months ended March 31, 2016, a decrease of approximately 7%. This decrease was primarily driven by lower headcount costs and changes in foreign currency.

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

Interest Expense. Interest expense has remained relatively consistent with the three months ended March 31, 2015 at \$0.8 million.

Liquidity and Capital Resources

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash and cash equivalents. At March 31, 2016 we had \$1.6 million

of cash and equivalents. We had a working capital deficit of \$1.1 million and working capital of \$1.0 million as of March 31, 2016 and December 31, 2015, respectively. The decrease in the working capital is due principally to the net losses incurred for the first three months of 2016.

The following table summarizes our cash flow by operating, investing and financing activities for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,	
	2016	2015
Cash flow used in operating activities	\$ (3,867)	\$ (3,289)
Cash flow used in investing activities		(52)
Cash flow provided by financing activities	(123)	509

Net cash used in operating activities. We used approximately \$3.9 million and \$3.3 million of cash for operating activities during the three months ended March 31, 2016 and 2015, respectively. The increase in cash used in operating activities was primarily driven by changes in working capital.

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Net cash used in investing activities. There were no purchases of equipment for the three month period ended March, 31, 2016 and we used less than \$0.1 million during the three month period ended March 31, 2015 for the purchase of equipment.

Net cash provided by financing activities. We used approximately \$0.1 million of cash for the three month period ended March 31, 2016 compared to the \$0.5 million generated for the three month period ended March 31, 2015. The increase in cash used for the period ended March 31, 2016 was driven by payments of deferred financing costs. The cash generated for the period ended March 31, 2015 was driven by proceeds from stock issued through the Controlled Equity Offering.

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

Our existing cash, cash equivalents and borrowing facilities may not be sufficient to fund our operating expenses and capital equipment requirements through the next 12 months, which would require us to obtain additional financing before that time. We cannot assure that additional financing will be available on a timely basis on terms acceptable to us or at all, or that such financing will not be dilutive to our stockholders. If adequate funds are not available to us, we could be required to delay development or commercialization of new products, to license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize ourselves or to reduce the sales, marketing, customer support or other resources devoted to our products, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, we could be required to cease operations.

Capital Resources

As of March 31, 2016, our borrowing facilities were comprised of a revolving line of credit maintained with our primary lender, Silicon Valley Bank, as well as the Healthcare Royalty Partners debt discussed in the following sections.

Revolving Line of Credit

The Company has had a working capital line of credit with its primary lender, Silicon Valley Bank, since 2004. The revolving line of credit is secured by substantially all of the Company's assets. The maximum available under the line is \$10 million subject to the value of collateralized assets. The Company is required under the revolving line of credit to maintain its primary operating account and the majority of its cash and investment balances in accounts with its primary lender. The facility was 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 March 31, 2016, the Company had no outstanding debt under the revolving line of credit. Draws on the line of credit are made based on the borrowing capacity one week in arrears. As of March 31, 2016 the Company had a borrowing capacity of \$4.9 million based on the Company's collateralized assets, and cash and cash equivalents of \$1.6 million for a total liquidity of \$6.5 million.

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Healthcare Royalty Partners Debt

In November 2011, we entered into a loan agreement with Healthcare Royalty Partners. Under the agreement the Company borrowed from Healthcare Royalty Partners \$15 million. The Company was permitted to borrow up to an additional \$5 million in the aggregate based on the achievement by the Company of certain milestones related to *Niobe* ES system sales in 2012. On August 8, 2012, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* ES system sales for the three months ended June 30, 2012. On January 31, 2013, the Company borrowed an additional \$2.5 million based upon achievement of a milestone related to *Niobe* ES system sales for the twelve months ended December 31, 2012. The loan will be repaid through, and secured by, royalties payable to the Company under its Development, Alliance and Supply Agreement with Biosense Webster, Inc. (the Biosense Agreement). The Biosense Agreement relates to the development and distribution of magnetically enabled catheters used with Stereotaxis *Niobe* ES system in cardiac ablation procedures. Under the terms of the agreement, Healthcare Royalty Partners will be entitled to receive 100% of all royalties due to the Company under the Biosense Agreement until the loan is repaid. The loan is a full recourse loan, matures on December 31, 2018, and bears interest at an annual rate of 16% payable quarterly with royalties received under the Biosense Agreement. If the payments received by the Company under the Biosense Agreement are insufficient to pay all amounts of interest due on the loan, then such deficiency will increase the outstanding principal amount on the loan. After the loan obligation is repaid, royalties under the Biosense Agreement will again be paid to the Company. The loan is also secured by certain assets and intellectual property of the Company. The agreement also contains customary affirmative and negative covenants. The use of payments due to the Company under the Biosense Agreement was approved by our primary lender.

Common Stock

The holders of common stock are entitled to one vote for each share held and to receive dividends whenever funds are legally available and when declared by the Board of Directors subject to the prior rights of holders of all classes of stock having priority rights as dividends and the conditions of the revolving line of credit agreement. No dividends have been declared or paid as of March 31, 2016.

Controlled Equity Offering

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

There were no proceeds from the Controlled Equity Offering during the three months ended March 31, 2016. As of March 31, 2016, \$13.8 million of common stock remained available to be sold under this facility, subject to certain conditions as specified in the Sales Agreement.

Offerings of Common Stock

On October 8, 2015 the Company announced the results of its previously announced offering of transferable subscription warrants (the Warrants Offering) to holders of record of the Company's common stock. Pursuant to the Warrants Offering, subscription warrants to purchase 267,256 shares of common stock were exercised, resulting in gross proceeds to the Company of \$293,982.

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,

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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

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

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

On May 2, 2016, Stereotaxis, Inc. (the "Company") received a determination letter from the Nasdaq Hearings Panel (the "Panel") granting the Company's request for the continued listing of its common stock on The Nasdaq Capital Market ("Nasdaq"). The Company's continued listing on Nasdaq is subject to, among other things, the Company evidencing compliance with the minimum \$35 million market value of listed securities requirement (the "Market Cap

Requirement) by August 1, 2016. To satisfy the Market Cap Requirement, the Company must evidence a market value of listed securities of at least \$35 million for a minimum of ten consecutive business days on or before August 1, 2016. The Company is taking definitive steps to timely comply with the terms of the Panel s decision; however, there can be no assurance that it will be able to do so.

On May 10, 2016, Stereotaxis, Inc. (the Company) entered into an Eleventh Loan Modification Agreement (Domestic) with Silicon Valley Bank (the Bank) (Modification Agreement), further amending the terms of that certain Second Amended and Restated Loan and Security Agreement (Domestic) dated November 30, 2011, as amended (the Amended Loan Agreement), to modify the financial covenants under the Amended Loan Agreement by revising the tangible net worth covenant to require the Company to maintain a minimum tangible net worth of not less than (no worse than) negative \$24,000,000 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 \$24,500,000 for the quarters ended December 31, 2017 and March 31, 2018.

ITEM 6. EXHIBITS

Exhibits: See Exhibit Index herein

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STEREOTAXIS, INC.

SIGNATURES

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

STEREOTAXIS, INC.

(Registrant)

Date: May 11, 2016

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

Chief Executive Officer

Date: May 11, 2016

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

Chief Financial Officer

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EXHIBIT INDEX

Number	Description
3.1	Restated Certificate of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-Q (file No. 000-50884) for the fiscal quarter ended September 30, 2004.
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (File No. 000-50884) filed on July 10, 2012.
3.3	Restated Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 30, 2004.
10.1	Eleventh Loan Modification Agreement (Domestic), dated May 10, 2016, between the Company, Stereotaxis International, Inc., and Silicon Valley Bank, 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.