SPIRIT REALTY CAPITAL, INC.
Form 10-Q
May 03, 2018

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, 2018

OR

o 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

Spirit Realty Capital, Inc. 001-36004

Spirit Realty, L.P. 333-216815-01

SPIRIT REALTY CAPITAL, INC.
SPIRIT REALTY, L.P.
(Exact name of registrant as specified in its charter)

Spirit Realty Capital, Inc.	Maryland	20-1676382
Spirit Realty, L.P.	Delaware	20-1127940
	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
	2727 North Harwood Street, Suite 300, Dallas, Texas 75201	(972) 476-1900
	(Address of principal executive offices; zip code)	(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 for 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.

Spirit Realty Capital, Inc. Yes x No o Spirit Realty, L.P. Yes x No o

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).

Spirit Realty Capital, Inc. Yes x No o Spirit Realty, L.P. Yes x No o

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”, “smaller reporting company” or an emerging growth company. See definitions of "large accelerated filer,", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Spirit Realty Capital, Inc.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Smaller reporting company o Emerging growth company o

Spirit Realty, L.P.

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Smaller reporting company o Emerging growth company o

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.

Spirit Realty Capital, Inc. o Spirit Realty, L.P. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Spirit Realty Capital, Inc. Yes o No x Spirit Realty, L.P. Yes o No x

As of May 2, 2018, there were 428,548,969 shares of common stock, par value $0.01, of Spirit Realty Capital, Inc. outstanding.

Explanatory Note

This report combines the quarterly reports on Form 10-Q for the three months ended March 31, 2018 of Spirit Realty Capital, Inc., a Maryland corporation, and Spirit Realty, L.P., a Delaware limited partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” or the “Company” refer to Spirit Realty Capital, Inc. together with its consolidated subsidiaries, including Spirit Realty, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to the “Operating Partnership” refer to Spirit Realty, L.P. together with its consolidated subsidiaries.

Spirit General OP Holdings, LLC ("OP Holdings") is the sole general partner of the Operating Partnership. The Company is a real estate investment trust, or REIT, and the sole member of OP Holdings, as well as the special limited partner of the Operating Partnership. As sole member of the general partner of our Operating Partnership, our Company has the full, exclusive and complete responsibility for our Operating Partnership’s day-to-day management and control.

We believe combining the quarterly reports on Form 10-Q of our Company and Operating Partnership into a single report results in the following benefits:

- enhancing investors’ understanding of our Company and Operating Partnership by enabling investors to view the business as a whole, reflective of how management views and operates the business;
- eliminating duplicative disclosure and providing a streamlined presentation as a substantial portion of the disclosures apply to both our Company and Operating Partnership; and
- creating time and cost efficiencies by preparing one combined report in lieu of two separate reports.

There are a few differences between our Company and Operating Partnership, which are reflected in the disclosures in this report. We believe it is important to understand these differences in the context of how we operate as an interrelated, consolidated company. Our Company is a REIT, the only material assets of which are the partnership interests in our Operating Partnership. As a result, our Company does not conduct business itself, other than acting as the sole member of the general partner of our Operating Partnership, issuing equity from time to time and guaranteeing certain debt of our Operating Partnership. Our Operating Partnership holds substantially all the assets of our Company. Our Company issued convertible notes and guarantees some of the debt of our Operating Partnership. See footnote 4 to the consolidated financial statements included herein for further discussion. Our Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from the issuance of convertible notes and equity issuances by our Company, which are generally contributed to our Operating Partnership in exchange for partnership units of our Operating Partnership, our Operating Partnership generates the capital required by our Company’s business through our Operating Partnership’s operations or our Operating Partnership’s incurrence of indebtedness.

The presentation of stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of our Company and those of our Operating Partnership. The partnership units in our Operating Partnership are accounted for as partners’ capital in our Operating Partnership’s consolidated financial statements. There are no non-controlling interests in the Company or the Operating Partnership.

To help investors understand the significant differences between our Company and our Operating Partnership, this report presents the consolidated financial statements separately for our Company and our Operating Partnership. All other sections of this report, including “Selected Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk,” are presented together for our Company and our Operating Partnership.

In order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that our Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, or the Exchange Act, and 18 U.S.C. §1350, this report also includes separate “Item 4. Controls and Procedures” sections and separate Exhibit 31 and 32 certifications for each of our Company and our Operating Partnership.

SPIRIT REALTY CAPITAL, INC.
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GLOSSARY

Definitions:

1031 Exchange	Tax-deferred like-kind exchange of properties held for business or investment purposes, pursuant to Section 1031 of the Code
2017 Tax Legislation	Tax Cuts and Jobs Act
2019 Notes	$402.5 million convertible notes of the Corporation due in 2019
2021 Notes	$345.0 million convertible notes of the Corporation due in 2021
AFFO	Adjusted Funds From Operations
Amended Incentive Award Plan	Amended and Restated Spirit Realty Capital, Inc. and Spirit Realty, L.P. 2012 Incentive Award Plan
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM Program	At the Market equity distribution program, pursuant to which the Corporation may offer and sell registered shares of common stock from time to time
CMBS	Commercial Mortgage Backed Securities
Code	Internal Revenue Code of 1986, as amended
Collateral Pools	Pools of collateral assets that are pledged to the indenture trustee for the benefit of the noteholders and secure obligations of issuers under the Spirit Master Funding Program
Company	The Corporation and its consolidated subsidiaries
Contractual Rent	Monthly contractual cash rent and earned income from direct financing leases, excluding percentage rents, from our properties owned fee-simple or ground leased, recognized during the final month of the reporting period, adjusted to exclude amounts received from properties sold during that period and adjusted to include a full month of contractual rent for properties acquired during that period.
Convertible Notes	The 2019 Notes and 2021 Notes, together
Corporation	Spirit Realty Capital, Inc., a Maryland corporation
CPI	Consumer Price Index
Credit Agreement	Revolving credit facility agreement between the Operating Partnership and certain lenders dated March 31, 2015, as amended or otherwise modified from time to time
EBITDAre	EBITDAre is a non-GAAP financial measure and is computed in accordance with standards established by NAREIT. EBITDAre is defined as net income (loss) (computed in accordance with GAAP), plus interest expense, plus income tax expense (if any), plus depreciation and amortization, plus (minus) losses and gains on the disposition of depreciated property, plus impairment write-downs of depreciated property and investments in unconsolidated real estate ventures, plus adjustments to reflect the Company's share of EBITDAre of unconsolidated real estate ventures.
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FFO	Funds From Operations
Fitch	Fitch Ratings, Inc.
GAAP	Generally Accepted Accounting Principles in the United States
LIBOR	London Interbank Offered Rate
Master Trust 2013	The net-lease mortgage securitization trust established in December 2013 under the Spirit Master Funding Program
Master Trust 2014	The net-lease mortgage securitization trust established in 2005 and amended and restated in 2014 under the Spirit Master Funding Program

Master Trust Exchange Costs	Legal, accounting, and financial advisory services costs incurred in connection with the Exchange Offer
Master Trust Notes	Master Trust 2013 and Master Trust 2014 notes, together
Master Trust Release	Proceeds from the sale of assets securing the Master Trust Notes held in restricted accounts until a qualifying substitution is made or until used for principal reduction

Definitions:	
Moody's	Moody's Investor Services
NAREIT	National Association of Real Estate Investment Trusts
OP Holdings	Spirit General OP Holdings, LLC
Operating Partnership	Spirit Realty, L.P., a Delaware limited partnership
REIT	Real Estate Investment Trust
Revolving Credit Facility	$800.0 million unsecured credit facility pursuant to the Credit Agreement
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Senior Unsecured Notes	$300 million aggregate principal amount of senior notes issued in August 2016
Series A Preferred Stock	6,900,000 shares of 6.000% Cumulative Redeemable Preferred Stock issued October 3, 2017, with a liquidation preference of $25.00 per share.
Shopko	Specialty Retail Shops Holding Corp. and certain of its affiliates
SMTA	Spirit MTA REIT, a Maryland real estate investment trust
Spin-Off	Creation of an independent, publicly traded REIT, SMTA, through our contribution of properties leased to Shopko, assets that collateralize Master Trust 2014 and other additional assets to SMTA followed by the distribution by us to our stockholders of all of the common shares of beneficial interest in SMTA.
Spirit Master Funding Program	The Company's asset-backed securitization program that comprises Master Trust 2013 and Master Trust 2014
Term Loan	$420.0 million senior unsecured term facility pursuant to the Term Loan Agreement
Term Loan Agreement	Term loan agreement between the Operating Partnership and certain lenders dated November 3, 2015, as amended or otherwise modified from time to time
TSR	Total Stockholder Return
U.S.	United States
Vacant	Owned properties which are not economically yielding

Unless otherwise indicated or unless the context requires otherwise, all references to the "Company," "Spirit Realty Capital," "we," "us" or "our" refer to the Corporation and its consolidated subsidiaries, including the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references to the "Operating Partnership" refer to Spirit Realty, L.P. and its consolidated subsidiaries.

PART I — FINANCIAL INFORMATION
Item 1. Financial Statements

SPIRIT REALTY CAPITAL, INC.
Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Data)
(Unaudited)

	March 31, 2018	December 31, 2017
Assets		
Investments:		
Real estate investments:		
Land and improvements	$2,571,942	$2,588,930
Buildings and improvements	4,685,541	4,692,377
Total real estate investments	7,257,483	7,281,307
Less: accumulated depreciation	(1,113,804)	(1,075,643)
	6,143,679	6,205,664
Loans receivable, net	111,062	79,967
Intangible lease assets, net	396,596	409,903
Real estate assets under direct financing leases, net	24,847	24,865
Real estate assets held for sale, net	19,432	48,929
Net investments	6,695,616	6,769,328
Cash and cash equivalents	10,989	8,798
Deferred costs and other assets, net	241,875	231,045
Goodwill	254,340	254,340
Total assets	$7,202,820	$7,263,511
Liabilities and stockholders' equity		
Liabilities:		

Revolving Credit Facility	$154,500	$112,000
Term Loan, net	—	—
Senior Unsecured Notes, net	295,431	295,321
Mortgages and notes payable, net	2,571,794	2,516,478
Convertible Notes, net	719,295	715,881
Total debt, net	3,741,020	3,639,680
Intangible lease liabilities, net	151,179	155,303
Accounts payable, accrued expenses and other liabilities	141,898	148,919
Total liabilities	4,034,097	3,943,902
Commitments and contingencies (see Note 6)		
Stockholders' equity:		
Preferred stock and paid in capital, $0.01 par value, 20,000,000 shares authorized: 6,900,000 shares issued and outstanding at both March 31, 2018 and December 31, 2017	166,193	166,193
Common stock, $0.01 par value, 750,000,000 shares authorized:	4,366	4,489

436,561,654 and 448,868,269 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively		
Capital in excess of par value	5,197,988	5,193,631
Accumulated deficit	(2,199,824)	(2,044,704

Our sales and marketing efforts include three important elements: (1) selling Niobe systems directly and through co-marketing agreements with our imaging partners, Siemens and Philips and through distributors; (2) leveraging our installed base of systems to drive recurring sales of disposable interventional devices, software and service; and (3) increasing the market penetration of Odyssey in standard labs.

REIMBURSEMENT

We believe that substantially all of the procedures, whether commercial or in clinical trials, conducted i the U.S. with the Niobe system have been reimbursed to date. We expect that third-party payors wi reimburse, under existing billing codes, our line of guidewires, as well as our line of ablation catheters an those on which we are collaborating with Biosense Webster. We expect healthcare facilities in the U.S. t bill various third-party payors, such as Medicare, Medicaid, other government programs and privat insurers, for services performed with our products. We believe that procedures performed using ou products, or targeted for use by products that do not yet have regulatory clearance or approval, ar generally already reimbursable under government programs and most private plans. Accordingly, w believe providers in the U.S. will generally not be required to obtain new billing authorizations or codes i order to be compensated for performing medically necessary procedures using our products on insure patients. We cannot assure you that reimbursement policies of third-party payors will not change in th future with respect to some or all of the procedures using the Niobe system. See Item 1A Risk Factors discussion of various risks associated with reimbursement from third-party payors.

INTELLECTUAL PROPERTY

Our strategy is to patent the technology, inventions and improvements that we consider important to th development of our business. As a result, we have an extensive patent portfolio that we believe protects th fundamental scope of our technology, including our magnet technology, navigational methods, procedures

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systems, disposables interventional devices and our 3D integration technology. As of December 31, 2009 we had 83 issued U.S. patents, 2 co-owned U.S. patents and 7 licensed U.S. patents. In addition, we ha 115 pending U.S. patent applications, 7 co-owned U.S. patent applications, 5 licensed U.S. paten applications. As of December 31, 2009 we had 9 issued foreign patents and one licensed-in foreign paten 3 pending Patent Cooperation Treaty applications and 24 owned and one co-owned Foreign Pater Applications. We also have a number of invention disclosures under consideration and several application that are being prepared for filing.

The patent positions of medical device companies, including ours, can be highly uncertain and involv complex and evolving legal and factual questions. One or more of the above patent applications may b denied. In addition, our issued patents may be challenged, based on prior art circumvented or otherwise no provide protection for the products we develop. Furthermore, we may not be able to obtain patent license from third parties required for the development of new products for use with our system. We also note tha U.S. patents and patent applications may be subject to interference proceedings and U.S. patents may b subject to reexamination proceedings in the U.S. Patent and Trademark Office (and foreign patents may b subject to opposition or comparable proceedings in the corresponding foreign patent office), whic proceedings could result in either loss of the patent or denial of the patent application or loss or reductio in the scope of one or more of the claims of the patent or patent application. In addition, such interference reexamination and opposition proceedings may be costly. In the event that we seek to enforce any of ou owned or exclusively licensed patents against an infringing party, it is likely that the party defending th claim will seek to invalidate the patents we assert, which, if successful could result in the entire loss of ou patent or the relevant portion of our patent and not just with respect to that particular infringer. An litigation to enforce or defend our patents rights, even if we were to prevail, could be costly an time-consuming and would divert the attention of our management and key personnel from our busines operations.

It would be technically difficult and costly to reverse engineer our Niobe system, which contains numerou complex algorithms that control our disposable devices inside the magnetic fields generated by the Niob system. We further believe that our patent portfolio is broad enough in scope to enable us to obtain lega relief if any entity not licensed by us attempted to market disposable devices that can be navigated by th Niobe system. We can also utilize security keys, such as embedded smart chips or associated software tha could allow our system to recognize specific disposable interventional devices in order to preven unauthorized use of our system.

We have also developed substantial know-how in magnet design, magnet physics and magnetic instrumen control that was developed in connection with the development of the Niobe system, which we maintain a trade secrets. This know-how centers around our proprietary magnet design, which is a critical aspect o our ability to design, manufacture and install a cost-effective Magnetic Navigation System that is sma enough to be installed in a standard interventional lab. It would also be technically difficult and costly t reverse engineer our Odyssey Enterprise System, which contains numerous complex algorithms an proprietary software and hardware configurations, and requires substantial knowledge to design an assemble, which we maintain as trade secrets. These proprietary software and hardware, some of which i owned by Stereotaxis, and some of which is licensed to Stereotaxis exclusively in its field of use, is material aspect of the ability to design, manufacture and install a cost-effective and efficient informatio integration, storage, and delivery platform.

We seek to protect our proprietary information by requiring our employees, consultants, contractor outside partners and other advisers to execute nondisclosure and assignment of invention agreements upo commencement of their employment or engagement, through which we seek to protect our intellectua property. These agreements to protect our unpatented technology provide only limited and possibl inadequate protection of our rights. Third parties may therefore be able to use our unpatented technology reducing our ability to compete. In addition, employees, consultants and other parties to these agreement may breach them and adequate remedies may not be available to us for their breaches. Many of ou employees were previously employed at universities or other medical device companies, includin potential competitors. We could in the future be subject to claims that these employees or we have used o disclosed trade secrets or other proprietary information of their former employers. Litigation may b necessary to defend against these claims. If we fail in

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defending such claims, in addition to paying monetary damages, we may lose valuable intellectua property rights or personnel. Even if we are successful in defending against these claims, litigation coul result in substantial costs and divert the attention of management and key personnel from our busines operations. We also generally seek confidentiality agreements from third parties that receive ou confidential data or materials.

Our intellectual property involves certain risks and uncertainties. Please refer to Item 1A Risk Facto this annual report for a description of these risks and uncertainties.

COMPETITION

The markets for medical devices are intensely competitive and are characterized by rapid technologica advances, frequent new product introductions, evolving industry standards and price erosion.

We consider the primary competition to our Niobe system to be existing manual catheter-base interventional techniques and surgical procedures. To our knowledge, we are the only company that ha commercialized remote, digital and direct control of the working tip of catheters and guidewires fo interventional use. Our success depends in part on convincing hospitals and physicians to convert existin interventional procedures to computer-assisted procedures.

We also face competition from companies that are developing new approaches and products for use i interventional procedures, including robotic approaches that are directly competitive with our technology Some of these companies may have an established presence in the field of interventional cardiology including the major imaging, capital equipment and disposables companies that are currently sellin products in the interventional lab. We are aware of one public company that has commercialized a cathet delivery system which has been cleared by the FDA for mapping procedures only and one privat company at a much earlier stage of development. We also face competition from companies who currentl market or are developing drugs, gene or cellular therapies to treat the conditions for which our products ar intended.

We face direct competition to certain products in our Odyssey Enterprise Solution, such as the Odysse Vision. These competitor products primarily compete with individual components of our Odysse Enterprise Solution. We expect to continue to face competitive pressure in this market in the future, base on the rapid pace of advancements with this technology.

We believe that the primary competitive factors in the market we address are capability, safety, efficacy ease of use, price, quality, reliability and effective sales, support, training and service. The length of tim required for products to be developed and to receive regulatory and reimbursement approval is also a important competitive factor. See Item 1A Risk Factors for a discussion of other competitive risks f our business.

GOVERNMENT REGULATION

The healthcare industry, and thus our business, is subject to extensive federal, state, local and foreig regulation. Some of the pertinent laws have not been definitively interpreted by the regulatory authoritie or the courts, and their provisions are open to a variety of interpretations. In addition, these laws and the interpretations are subject to change.

Both federal and state governmental agencies continue to subject the healthcare industry to intens regulatory scrutiny, including heightened civil and criminal enforcement efforts. As indicated by wor plans and reports issued by these agencies, the federal government will continue to scrutinize, among othe things, the billing practices of healthcare providers and the marketing of healthcare products. The federa government also has increased funding in recent years to fight healthcare fraud, and various agencies, suc as the U.S. Department of Justice, the Office of Inspector General of the Department of Health and Huma Services, or OIG, and state Medicaid fraud control units, are coordinating their enforcement efforts.

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We believe that we have structured our business operations and relationships with our customers t comply with all applicable legal requirements. However, it is possible that governmental entities or othe third parties could interpret these laws differently and assert otherwise. We discuss below the statutes an regulations that are most relevant to our business and most frequently cited in enforcement actions.

U.S. Food and Drug Administration Regulation

The Food and Drug Administration (FDA) strictly regulates the medical devices we produce under authority of the Federal Food, Drug and Cosmetic Act, or FFDCA, the regulations promulgated under th FFDCA, and other federal and state statutes and regulations. The FFDCA governs, among other things, th pre-clinical and clinical testing, design, manufacture, safety, efficacy, labeling, storage, record keeping post market reporting and advertising and promotion of medical devices.

Our medical devices are categorized under the statutory framework described in the FFDCA. Thi framework is a risk-based system which classifies medical devices into three classes from lowest ris (Class I) to highest risk (Class III). In general, Class I and II devices are either exempt from the need fo FDA clearance or cleared for marketing through a premarket notification, or 510(k), process. Our device that are considered to be general tools, such as our Niobe Magnetic Navigation System and our suite o guidewires, or that provide diagnostic information, such as our TANGENT electrophysiology mappin catheters, are subject to 510(k) requirements. These devices are cleared for use as general tools which hav utility in a variety of interventional procedures. Our therapeutic devices, such as our HELIOS II ablatio catheters, are subject to the premarket approval, or PMA, process.

If clinical data are needed to support a marketing application for our devices, generally, an investigationa device exemption, or IDE, is assembled and submitted to the FDA. The FDA reviews and must approv the IDE before the study can begin. In addition, the study must be approved by an Institutional Revie Board covering each clinical site. When all approvals are obtained, we initiate a clinical study to evaluat the device. Following completion of the study, we collect, analyze and present the data in an appropriat submission to the FDA, either a 510(k) or PMA.

Under the 510(k) process, the FDA determines whether or not the device is substantially equivalent predicate device. In making this determination, the FDA compares both the new device and the predicat device. If the two devices are comparable in intended use, safety, and effectiveness, the device may b cleared for marketing.

Under the PMA process, the FDA examines detailed data relating to the safety and effectiveness of th device. This information includes design, development, manufacture, labeling, advertising, pre-clinica testing, and clinical study data. Prior to approving the PMA, the FDA generally will conduct an inspectio of the facilities producing the device and one or more clinical sites where the study was conducted. Th facility inspection evaluates the Company s readiness to commercially produce and distribute the devi The inspection includes an evaluation of compliance under the Quality System Regulation (QSR). Unde certain circumstances, the FDA may convene an advisory panel meeting to seek review of the dat presented in the PMA. If the FDA s evaluation is favorable, the PMA is approved, and we can market device in the U.S. The FDA may approve the PMA with conditions, such as post-market surveillanc requirements.

We evaluate changes made following 510(k) clearance or PMA approval for significance and appropriate, make a subsequent submission to the FDA. In the case of a significant change being made to 510(k) device, we submit a new 510(k). For a PMA device, we will either need approval through a PM supplement or will need to notify the FDA.

For our 510(k) devices, we design the submission to cover multiple models or variations in order t minimize the number of submissions. For our PMA devices, we often rely upon the PMA approvals of ou

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strategic partners to utilize the PMA supplement regulatory path rather than pursue an original PMA Because of the differences in the amount of data and numbers of patients in clinical trials, a PMA supplement process is often much shorter than the amount of time and data required for approval of a original PMA.

Currently our Niobe Magnetic Navigation System, Navigant advanced user interface, Cardiodriv automated catheter advancement system, Odyssey Vision, Tangent electrophysiology mapping cathet Helios II electrophysiology ablation catheter, the Cronus and Assert families of coronary guidewires, th Titan and Pegasus families of guidewires and our RF guidewire have been cleared by the FDA to be us in interventional procedures. In addition, Biosense Webster received FDA approval for the CELSIUS® RMT the NAVISTAR® RMT, the NAVISTAR® RMT DS, and the NAVISTAR® RMT THERMOCOOL® Irrigated Ti diagnostic/ablation steerable tip catheters as described above.

Foreign Regulation

In order for us to market our products in other countries, we must obtain regulatory approvals and compl with extensive safety and quality regulations in other countries. These regulations, including th requirements for approvals or clearance and the time required for regulatory review, vary from country t country. Failure to obtain regulatory approval in any foreign country in which we plan to market ou products may harm our ability to generate revenue and harm our business.

The primary regulatory environment in Europe is that of the European Union, which consists of 2 countries encompassing most of the major countries in Europe. The European Union requires tha manufacturers of medical products obtain the right to affix the CE Mark to their products before sellin them in member countries of the European Union. The CE Mark is an international symbol of adherence t quality assurance standards and compliance with applicable European medical device directives. In orde to obtain the right to affix the CE Mark to products, a manufacturer must obtain certification that it processes meet certain European quality standards. Compliance with the Medical Device Directive, a certified by a recognized European Notified Body, permits the manufacturer to affix the CE Mark on it products and commercially distribute those products throughout the European Union.

We have received the right to affix the CE Mark to each of our products that has received 510(k) clearanc or PMA approval in the U.S. We have not applied for the right to affix the CE Mark to our Tanger mapping catheter as it is not currently marketed. If we modify existing products or develop new product in the future, including new devices, we will need to apply for permission to affix the CE Mark to suc products. We will be subject to regulatory audits, currently conducted biannually, in order to maintain an CE Mark permissions we have already obtained. We cannot be certain that we will be able to obtai permission to affix the CE Mark for new or modified products or that we will continue to meet the qualit and safety standards required to maintain the permissions we have already received. If we are unable t maintain permission to affix the CE Mark to our products, we will no longer be able to sell our products i member countries of the European Union. In addition, Biosense Webster has obtained the right to affix th CE Mark to the CELSIUS® RMT, the NAVISTAR® RMT, the NAVISTAR® RMT DS, and the NAVISTAR® RM ThermoCool® Irrigated Tip diagnostic/ablation steerable tip catheters.

We are actively pursuing approvals for our system and for various disposable devices in various othe countries in which we conduct business or intend to conduct business. Where appropriate, we wor through our strategic partners to obtain the requisite approvals. We will evaluate regulatory approval o additional products and in other foreign countries on an opportunistic basis.

Anti-Kickback Statute

The federal healthcare program Anti-Kickback Statute prohibits persons from knowingly and willfull soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or t induce either the referral of an individual, or furnishing or arranging for a good or service, for whic payment may be made

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under a federal healthcare program such as the Medicare and Medicaid programs. The definition o remuneration has been broadly interpreted to include anything of value, including for example g discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash and waivers o payments. Several courts have interpreted the statute s intent requirement to mean that if any one purpo of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, th statute has been violated. Penalties for violations include criminal penalties and civil sanctions such a fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcar programs. In addition, some kickback allegations have been claimed to violate the Federal False Claim Act, discussed in more detail below.

The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful i businesses outside of the healthcare industry. Recognizing that the Anti-Kickback Statute is broad and ma technically prohibit many innocuous or beneficial arrangements, Congress authorized the OIG to issue series of regulations, known as the safe harbors which it did, beginning in July 1991. These safe har set forth provisions that, if all their applicable requirements are met, will assure healthcare providers an other parties that they will not be prosecuted under the federal Anti-Kickback Statute. The failure of transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean tha it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do no fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcemen authorities such as the OIG.

Many states have adopted laws similar to the federal Anti-Kickback Statute. Some of these stat prohibitions apply to referral of patients for healthcare items or services reimbursed by any source, no only the Medicare and Medicaid programs.

Government officials have focused their enforcement efforts on marketing of healthcare services an products, among other activities, and recently have brought cases against sales personnel who allegedl offered unlawful inducements to potential or existing customers in an attempt to procure their business. A part of our compliance program, we have established a formal Clinical Compliance Committee an appointed a Clinical Compliance Officer to help ensure compliance with the Anti-Kickback Statute an similar state laws and we train our employees on our healthcare compliance policies. However, we canno rule out the possibility that the government or other third parties could interpret these laws differently an assert otherwise.

HIPAA

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, created two federal crimes healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibi knowingly and willfully executing a scheme to defraud any healthcare benefit program, including privat payors. A violation of this statute is a felony and may result in fines, imprisonment or exclusion fro government sponsored programs. The false statements statute prohibits knowingly and willfully falsifying concealing or covering up a material fact or making any materially false, fictitious or fraudulent statemen in connection with the delivery of or payment for healthcare benefits, items or services. A violation of th statute is a felony and may result in fines or imprisonment.

In addition to creating the two new federal healthcare crimes, HIPAA also establishes uniform standard governing the conduct of certain electronic healthcare transactions and protecting the security and privac of individually identifiable health information maintained or transmitted by healthcare providers, healt plans and healthcare clearinghouses. Two standards have been promulgated under HIPAA: the Standard for Privacy of Individually Identifiable Health Information, which restrict the use and disclosure of certai individually identifiable health information, and the Standards for Electronic Transactions, which establis standards for common healthcare transactions, such as claims information, plan eligibility, paymen information and the use of electronic signatures. In addition, the Security Standards required covere entities to implement certain security measures to safeguard certain electronic health information by Apr 2005. Although we believe we are not a covered entity and therefore do not need to comply with thes standards, our customers generally are covered

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entities and frequently ask us to comply with certain aspects of these standards. While the governmen intended this legislation to reduce administrative expenses and burdens for the healthcare industry, ou compliance with certain provisions of these standards may entail significant and costly changes for us. we fail to comply with these standards, it is possible that we could be subject to criminal penalties.

In addition to federal regulations issued under HIPAA, some states and foreign countries have enacte privacy and security statutes or regulations that, in some cases, are more stringent than those issued unde HIPAA. In those cases, it may be necessary to modify our operations and procedures to comply with th more stringent state laws, which may entail significant and costly changes for us. We believe that we are i compliance with such state laws and regulations. However, if we fail to comply with applicable state law and regulations, we could be subject to additional sanctions.

Federal False Claims Act

Another trend affecting the healthcare industry is the increased use of the federal False Claims Act and, i particular, actions under the False Claims Act s whistleblower or qui tam provisions. Those pr allow a private individual to bring actions on behalf of the government alleging that the defendant ha defrauded the federal government. The government must decide whether to intervene in the lawsuit and t become the primary prosecutor. If it declines to do so, the individual may choose to pursue the case alone although the government must be kept apprised of the progress of the lawsuit. Whether or not the federa government intervenes in the case, it will receive the majority of any recovery. If the individual s litigati is successful, the individual is entitled to no less than 15%, but no more than 30%, of whatever amount th government recovers. In recent years, the number of suits brought against healthcare providers by privat individuals has increased dramatically. In addition, various states have enacted laws modeled after th federal False Claims Act.

When an entity is determined to have violated the federal False Claims Act, it may be required to pay up t three times the actual damages sustained by the government, plus civil penalties from $5,500 to $11,00 for each separate false claim. There are many potential bases for liability under the federal False Claim Act. Liability arises, primarily, when an entity knowingly submits, or causes another to submit, a fals claim for reimbursement to the federal government. Although simple negligence should not give rise t liability, submitting a claim with reckless disregard or deliberate ignorance of its truth or falsity coul result in substantial civil liability. The False Claims Act has been used to assert liability on the basis o inadequate care, improper referrals, and improper use of Medicare numbers when detailing the provider c services, in addition to the more predictable allegations as to misrepresentations with respect to th services rendered. We are unable to predict whether we could be subject to actions under the False Claim Act, or the impact of such actions. However, the costs of defending claims under the False Claims Act, a well as sanctions imposed under the Act, could significantly affect our financial performance.

Certificate of Need Laws

In approximately two-thirds of the states, a certificate of need or similar regulatory approval is require prior to the acquisition of high-cost capital items or various types of advanced medical equipment, such a our Niobe system. At present, many of the states in which we sell Niobe systems have laws that requir institutions located in those states to obtain a certificate of need in connection with the purchase of ou system, and some of our purchase orders are conditioned upon our customer s receipt of necessa certificate of need approval. Certificate of need laws were enacted to contain rising health care cost prevent the unnecessary duplication of health resources, and increase patient access for health services. I practice, certificate of need laws have prevented hospitals and other providers who have been unable t obtain a certificate of need from acquiring new equipment or offering new services. A further increase i the number of states regulating our business through certificate of need or similar programs coul adversely affect us. Moreover, some states may have additional requirements. For example, we understan that California s certificate of need law also incorporates seismic safety requirements which must be m before a hospital can acquire our Niobe system.

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Employees

As of December 31, 2009, we had 186 employees, 42 of whom were engaged directly in research an development, 79 in sales and marketing activities, 24 in manufacturing and service, 12 in regulatory clinical affairs and quality activities, 6 in training activities and 23 in general administrative an accounting activities. None of our employees is covered by a collective bargaining agreement, and w consider our relationship with our employees to be good.

Availability of Information

We make certain filings with the SEC, including our annual report on Form 10-K, quarterly reports o Form 10-Q, current reports on Form 8-K, and all amendments and exhibits to those reports, available fre of charge in the Investor Relations section of our website, *http://www.stereotaxis.com*, as soon a reasonably practicable after they are filed with the SEC. The filings are also available through the SEC a the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calli 1-800-SEC-0330. Further, these filings are available on the Internet at http://www.sec.gov. Informatio contained on our website is not part of this report and such information is not incorporated by referenc into this report.

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ITEM 1A. RISK FACTORS

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

**Hospital decision-makers may not purchase our Niobe or Odyssey system or may think that suc
systems are too expensive.**

The market for our products and related technology is not well established. To achieve continued sale
hospitals must purchase our products, and in particular, our Niobe Magnetic Navigation System. Th
Niobe Magnetic Navigation System, which is the core of our Niobe system, is a novel device, an
hospitals and physicians are traditionally slow to adopt new products and treatment practices. In additio
hospitals may delay their purchase or installation decision for the Niobe system based on the disposabl
interventional devices that have received regulatory clearance or approval. Moreover, the Niobe system
an expensive piece of capital equipment, representing a significant portion of the cost of a new c
replacement interventional lab. Although priced significantly below a Niobe system, the Odyssey system
still an expensive product. If hospitals do not widely adopt our systems, or if they decide that they are to
expensive, we may never become profitable. Any failure to sell as many systems as our business pla
requires could also have a seriously detrimental impact on our results of operations, financial conditio
and cash flow.

General economic conditions could materially adversely impact us.

Our operating performance is dependent upon economic conditions in the United States and in othe
countries in which we operate. The recent economic downturn or the lack of a robust recovery in th
United States and in other countries in which we sell our products may cause customers to dela
purchasing or installation decisions or cancel existing orders. The Niobe and Odyssey systems ar
typically purchased as part of a larger overall capital project and an economic downturn or the lack of
robust recovery might make it more difficult for our customers, including distributors, to obtain adequat
financing to support the project or to obtain requisite approvals. Any delay in purchasing decisions c
cancellation of purchasing commitments may result in a decrease in our revenues. The credit crisis coul
further affect our business if key suppliers are unable to obtain financing to manufacture our products c
become insolvent and we are unable to manufacture product to meet customer demand. If condition
become more severe or continue longer than we anticipate, we may experience a material negativ
decrease on the demand for our products which may, in turn, have a material adverse effect on ou
revenue, profitability, financial condition, ability to raise additional capital and the market price of ou
stock.

Physicians may not use our products if they do not believe they are safe, efficient and effective.

We believe that physicians will not use our products unless they determine that the Niobe system provide
a safe, effective and preferable alternative to interventional methods in general use today. Currently, ther
is only limited clinical data on the Niobe system with which to assess safety and efficacy. If longer-ter
patient studies or clinical experience indicate that treatment with our system or products is less effectiv
less efficient or less safe than our current data suggest, our sales would be harmed, and we could be subje
to significant liability. Further, unsatisfactory patient outcomes or patient injury could cause negativ
publicity for our products, particularly in the early phases of product introduction. In addition, physician
may be slow to adopt our products if they perceive liability risks arising from the use of these ne
products. It is also possible that as our products become more widely used, latent defects could b
identified, creating negative publicity and liability problems for us and adversely affecting demand for ou
products. If physicians do not use our products, we likely will not become profitable or generate sufficien
cash to survive as a going concern.

**Our collaborations with Siemens, Philips, Biosense Webster or other parties may fail, or we may no
be able to enter into additional partnerships or collaborations in the future.**

We are collaborating with Siemens, Philips, Biosense Webster and other parties to integrate our instrumen
control technology with their respective imaging products or disposable interventional devices and t

co-develop

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additional disposable interventional devices for use with our Niobe system. A significant portion of ou revenue from system sales will be derived from these integrated products. Siemens provide post-installation maintenance and support services to our customers for our integrated systems.

Our product commercialization plans could be disrupted, leading to lower than expected revenue and material and adverse impact on our results of operations and cash flow, if:

- any of our collaboration partners delays or fails in the integration of its technology with our Niob system as planned;
- any of our collaboration partners fails to develop or commercialize the integrated products in a timely manner;
- any of our collaboration partners do not co-market and co-promote our integrated product diligently or do not provide maintenance and support services as we expect; or
- we become involved in disputes with one or more of our collaboration partners regarding ou collaborations.

Siemens, Philips and Biosense Webster, as well as some of our other collaborators, are large, globa organizations with diverse product lines and interests that may diverge from our interests i commercializing our products. Accordingly, our collaborators may not devote adequate resources to ou products, or may experience financial difficulties, change their business strategy or undergo a busines combination that may affect their willingness or ability to fulfill their obligations to us.

The failure of one or more of our collaborations could have a material adverse effect on our financia condition, results of operations and cash flow. In addition, if we are unable to enter into additiona partnerships in the future, or if these partnerships fail, our ability to develop and commercialize product could be impacted negatively and our revenue could be adversely affected.

We have limited experience selling, marketing, and distributing products, which could impair ou ability to increase revenue.

We currently market our products in the U.S., Europe and the rest of the world through a direct sales forc of sales specialists, distributors and sales agents, supported by account managers and clinical specialist who provide training, clinical support, and other services to our customers. If we are unable to effectivel utilize our existing sales force or increase our existing sales force in the foreseeable future, we may b unable to generate the revenue we have projected in our business plan. Factors that may inhibit our sale and marketing efforts include:

- our inability to recruit and retain adequate numbers of qualified sales and marketing personnel;
- the inability of sales personnel to obtain access to or persuade adequate numbers of hospitals an physicians to purchase and use our products; and

unforeseen costs associated with maintaining and expanding an independent sales and marketing organization.

In addition, if we fail to effectively use distributors or contract sales agents for distribution of our product where appropriate, our revenue and profitability would be adversely affected.

Our marketing strategy is dependent on collaboration with physician thought leaders.

Our research and development efforts and our marketing strategy depend heavily on obtaining support and collaboration from highly regarded physicians at leading commercial and research hospitals, particularly in the U.S. and Europe. If we are unable to gain and/or maintain such support and collaboration or if the reputation or

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standing of these physicians is impaired or otherwise adversely affected, our ability to market our produc and, as a result, our financial condition, results of operations and cash flow could be materially an adversely affected.

We may not be able to rapidly train physicians in numbers sufficient to generate adequate deman for our products.

In order for physicians to learn to use the Niobe system, they must attend structured training sessions i order to familiarize themselves with a sophisticated user interface. Market acceptance could be delayed b lack of physician willingness to attend training sessions, by the time required to complete this training, o by state or institutional restrictions on the ability of the Company to provide training. An inability to train sufficient number of physicians to generate adequate demand for our products could have a materia adverse impact on our financial condition and cash flow.

Customers may choose to purchase competing products and not ours.

Our products must compete with established manual interventional methods. These methods are widel accepted in the medical community, have a long history of use and do not require the purchase of a additional expensive piece of capital equipment. In addition, many of the medical conditions that can b treated using our products can also be treated with existing pharmaceuticals or other medical devices an procedures. Many of these alternative treatments are widely accepted in the medical community and hav a long history of use.

We also face competition from companies that are developing drugs or other medical devices o procedures to treat the conditions for which our products are intended. The medical device an pharmaceutical industries make significant investments in research and development, and innovation i rapid and continuous. We are aware of one public company that has commercialized a catheter deliver system which has been cleared by the FDA for mapping procedures only, and we are aware of one privat company at a much earlier stage of development. If these or other new products or technologies emerg that provide the same or superior benefits as our products at equal or lesser cost, it could render ou products obsolete or unmarketable. We cannot be certain that physicians will use our products to replace o supplement established treatments or that our products will be competitive with current or future produc and technologies.

Many of our other competitors also have longer operating histories, significantly greater financia technical, marketing and other resources, greater name recognition and a larger base of customers than w do. In addition, as the markets for medical devices develop, additional competitors could enter the marke We cannot assure you that we will be able to compete successfully against existing or new competitor Our revenue would be reduced or eliminated if our competitors develop and market products that are mor effective and less expensive than our products.

If we are unable to fulfill our current purchase orders and other commitments on a timely basis o at all, we may not be able to achieve future sales growth.

Our backlog, which consists of purchase orders and other commitments, is considered by some investors t be a significant indicator of future performance. Consequently, negative changes to this backlog or it failure to grow commensurate with expectations could negatively impact our future operating results o our share price. Our backlog includes those outstanding purchase orders and other commitments tha management believes will result in recognition of revenue upon delivery or installation of our systems. W cannot assure you that we will recognize revenue in any particular period or at all because some of ou purchase orders and other commitments are subject to contingencies that are outside our control. I addition, these orders and commitments may be revised, modified or cancelled, either by their expres terms, as a result of negotiations or by project changes or delays. System installation is by its natur subject to the interventional lab construction or renovation process which comprises multiple stages, all o which are outside of our control. Although the actual installation of our Niobe system requires only a fe weeks, and can be accomplished by either our staff or by subcontractors,

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successful installation of our system can be subjected to delays related to the overall construction o renovation process. If we experience any failures or delays in completing the installation of these system our reputation would suffer and we may not be able to sell additional systems. We have experience situations in which our purchase orders and other commitments did not result in recognizing revenue fro placement of a system with a customer. In addition to construction delays, there are risks that an institutio will attempt to cancel a purchase order as a result of subsequent project review by the institution or th departure from the institution of physicians or physician groups who have expressed an interest in th Niobe or Odyssey system.

These, or similar events, have occurred in the past and are likely to occur in the future, causing delays i revenue recognition or even removal of orders and other commitments from our backlog. Such even would have a negative effect on our revenue and results of operations.

We will likely experience long and variable sales and installation cycles, which could result i substantial fluctuations in our quarterly results of operations.

We anticipate that our Niobe system will continue to have a lengthy sales cycle because it consists of relatively expensive piece of capital equipment, the purchase of which requires the approval of senio management at hospitals, inclusion in the hospitals interventional lab budget process for capi expenditures, and, in some instances, a certificate of need from the state or other regulatory approval. I addition, historically the majority of our Niobe systems have been delivered less than one year after th receipt of a purchase order from a hospital, with the timing being dependant on the construction cycle fo the new or replacement interventional suite in which the equipment will be installed. In some cases, th time frame has been extended further because the interventional suite construction is part of a large construction project at the customer site (typically the construction of a new building), which may occu with our existing and future purchase orders. We cannot assure you that the time from purchase order t delivery for systems to be delivered in the future will be consistent with our historical experience Moreover, the global economic slowdown may cause our customers to further delay construction o significant capital purchases, which could further lengthen our sales cycle. This may contribute t substantial fluctuations in our quarterly operating results. As a result, in future quarters our operatin results could fall below the expectations of securities analysts or investors, in which event our stock pric would likely decrease.

If the magnetic fields generated by our system are not compatible with, or interfere with, othe widely used equipment in the interventional labs, sales of our products would be negatively affected

Our Niobe system generates magnetic fields that directly govern the motion of the internal, or working, ti of disposable interventional devices. If other equipment in the interventional labs or elsewhere in hospital is incompatible with the magnetic fields generated by our system, or if our system interferes wit such equipment, we may be required to install additional shielding, which may be expensive and whic may not solve the problem. If magnetic interference becomes a significant issue at targeted institutions, would increase our installation costs at those institutions and could limit the number of hospitals tha would be willing to purchase and install our systems, either of which would adversely affect our financia condition, results of operations and cash flow.

The use of our products could result in product liability claims that could be expensive, diver management s attention, and harm our reputation and business.

Our business exposes us to significant risks of product liability claims. The medical device industry ha historically been litigious, and we could face product liability claims if the use of our products were t cause injury or death. The coverage limits of our product liability insurance policies may not be adequat to cover future claims, and we may be unable to maintain product liability insurance in the future a satisfactory rates or adequate amounts. A product liability claim, regardless of its merit or eventua outcome, could divert management s attention, result in significant legal defense costs, significant harm our reputation and a decline in revenue.

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Our costs could substantially increase if we receive a significant number of warranty claims.

We generally warrant each of our products against defects in materials and workmanship for a period of 1 months following the installation of our system. If product returns or warranty claims increase, we coul incur unanticipated additional expenditures for parts and service. In addition, our reputation and goodwi in the interventional lab market could be damaged. Unforeseen warranty exposure in excess of ou established reserves for liabilities associated with product warranties could materially and adversely affe our financial condition, results of operations and cash flow.

We may not generate cash from operations or be able to raise the necessary capital to commercializ our existing products and invest in new products.

We may require additional funds to meet our operational, working capital and capital expenditure needs i the future. We cannot be certain that we will be able to obtain additional financing on favorable terms or a all. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, amon other things:

- enhance our existing products or develop new ones;
- expand our operations;
- hire, train and retain employees; or
- respond to competitive pressures or capital requirements.

Our failure to do any of these things could result in lower revenue and adversely affect our financia condition and results of operations, and we may have to curtail or cease operations.

While we believe our existing cash, cash equivalents and investments, and funds available from ou current borrowing sources will be sufficient to fund our operating expenses and capital equipmen requirements through the next 12 months, we cannot assure you that we will not otherwise requir additional financing before that time. If adequate funds are not available to us, we could be required t delay development or commercialization of new products, to license to third parties the rights t commercialize products or technologies that we would otherwise seek to commercialize ourselves or t reduce the sales, marketing, customer support or other resources devoted to our products, any of whic could have a material adverse effect on our business, financial condition and results of operations.

We have incurred substantial losses in the past and may not be profitable in the future.

We have incurred substantial net losses since inception, and we expect to incur substantial net losses int 2010 as we continue the commercialization of our products. We may not be successful in completing th development or commercialization of our technology. Moreover, the extent of our future losses and th timing of profitability are highly uncertain, and we may never achieve profitable operations. If we requir more time than we expect to generate significant revenue and achieve profitability, we may not be able t continue our operations. Our failure to achieve profitability could negatively impact the market price o our common stock. Even if we do become profitable, we may not be able to sustain or increas profitability on a quarterly or annual basis. Furthermore, even if we achieve significant revenue, we ma choose to pursue a strategy of increasing market penetration and presence or expand or accelerate ne product development or clinical research activities at the expense of profitability.

We may not be able to comply with debt covenants and may have to repay outstanding indebtedness

We have financed our operations through equity transactions and bank and other borrowings. Our curren
bank loan agreement contains financial and other covenants which, if violated, could require th
repayment of existing indebtedness and lead to the lack of availability of borrowings under that agreemen
There can be no

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assurance that we will be able to maintain compliance with these covenants or that we could replace th source of liquidity if these covenants were to be violated and our loans were forced to be repaid.

Our reliance on contract manufacturers and on suppliers, and in some cases, a single supplier, coul harm our ability to meet demand for our products in a timely manner or within budget.

We depend on contract manufacturers to produce and assemble certain of the components of our system and other products such as our guidewires and electrophysiology catheter advancement devices. We als depend on various third party suppliers for the magnets we use in our Niobe Magnetic Navigation System and certain components of our Odyssey Enterprise Solution. In addition, some of the component necessary for the assembly of our products are currently provided to us by a single supplier, including th magnets for our Niobe Magnetic Navigation System and certain components of our Odyssey Enterpris Solution, and we generally do not maintain large volumes of inventory. Our reliance on these third partie involves a number of risks, including, among other things, the risk that:

- we may not be able to control the quality and cost of our system or respond to unanticipate changes and increases in customer orders;
- we may lose access to critical services and components, resulting in an interruption in th manufacture, assembly and shipment of our systems; and
- we may not be able to find new or alternative components for our use or reconfigure our system and manufacturing processes in a timely manner if the components necessary for our system become unavailable.

If any of these risks materialize, it could significantly increase our costs and impair product delivery.

Lead times for materials and components ordered by us and our contract manufacturers vary and depen on factors such as the specific supplier, contract terms and demand for a component at a given time. W and our contract manufacturers acquire materials, complete standard subassemblies and assemble full configured systems based on sales forecasts. If orders do not match forecasts, our contract manufacturer and we may have excess or inadequate inventory of materials and components.

In addition, if these manufacturers or suppliers stop providing us with the components or service necessary for the operation of our business, we may not be able to identify alternate sources in a timel fashion. Any transition to alternate manufacturers or suppliers would likely result in operational problem and increased expenses and could delay the shipment of, or limit our ability to provide, our products. W cannot assure you that we would be able to enter into agreements with new manufacturers or suppliers o commercially reasonable terms or at all. Additionally, obtaining components from a new supplier ma require a new or supplemental filing with applicable regulatory authorities and clearance or approval of th filing before we could resume product sales. Any disruptions in product flow may harm our ability t generate revenue, lead to customer dissatisfaction, damage our reputation and result in additional costs o cancellation of orders by our customers.

We also rely on our collaboration partner, Biosense Webster, and other parties to manufacture a number o disposable interventional devices for use with our Niobe system. If these parties cannot manufactur sufficient quantities of disposable interventional devices to meet customer demand, or if thei manufacturing processes are disrupted, our revenue and profitability would be adversely affected.

Risks associated with international manufacturing and trade could negatively impact the availabilit and cost of our products because materials used to manufacture our magnets, one of our key syste components, are sourced from overseas.

We purchase the permanent magnets for our Niobe Magnetic Navigation System from a manufacturer tha
uses material produced in Japan, and we anticipate that certain of the production work for these magnet
will be performed for this manufacturer in China. In addition, our subcontractor purchases magnets for ou
disposable

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interventional devices directly from a manufacturer in Japan. Any event causing a disruption of import including the imposition of import restrictions, could adversely affect our business. The flow c components from our vendors could also be adversely affected by financial or political instability in any c the countries in which the goods we purchase are manufactured, if the instability affects the production c export of product components from those countries. Trade restrictions in the form of tariffs or quotas, c both, could also affect the importation of those product components and could increase the cost and reduc the supply of products available to us. In addition, decreases in the value of the U.S. dollar against foreig currencies could increase the cost of products we purchase from overseas vendors.

We have limited experience in manufacturing and assembling our products and may encounte problems at our manufacturing facilities or those of our subcontractors or otherwise experienc manufacturing delays that could result in lost revenue.

We do not have extensive experience in manufacturing, assembling or testing our products on commercial scale as we subcontract the manufacture, assembly and testing of subassemblies of our Niob Magnetic Navigation System and all of our disposable devices. We may be unable to meet the expecte future demand for our Niobe or Odyssey system. In addition, the products we design may not satisfy all c the performance requirements and we may need to improve or modify the design or ask our subcontractor to modify their production process in order to do so. We or our subcontractors may experience qualit problems, substantial costs and unexpected delays related to efforts to upgrade and expand manufacturing assembly and testing capabilities. If we incur delays due to quality problems or other unexpected event we will be unable to produce a sufficient supply of product necessary to meet our future growt expectations.

We may be unable to protect our technology from use by third parties.

Our commercial success will depend in part on obtaining patent and other intellectual property righ protection for the technologies contained in our products and on successfully defending these right against third party challenges. The patent positions of medical device companies, including ours, can b highly uncertain and involve complex and evolving legal and factual questions. We cannot assure you tha we will obtain the patent protection we seek, that any protection we do obtain will be found valid an enforceable if challenged or that it will confer any significant commercial advantage. U.S. patents an patent applications may also be subject to interference proceedings and U.S. patents may be subject t re-examination proceedings in the U.S. Patent and Trademark Office, and foreign patents may be subjec to opposition or comparable proceedings in the corresponding foreign patent office, which proceeding could result in either loss of the patent or denial of the patent application or loss, or reduction in the scop of one or more of the claims of, the patent or patent application. In addition, such interference re-examination, and opposition proceedings may be costly. Thus, any patents that we own or license fro others may not provide any protection against competitors. Our pending patent applications, those we ma file in the future, or those we may license from third parties may not result in patents being issued an certain foreign patent applications for medical related devices and methods may be found unpatentable. issued, they may not provide us with proprietary protection or competitive advantages against competitor with similar technology.

Some of our technology was developed in conjunction with third parties, and thus there is a risk that third party may claim rights in our intellectual property. Outside the U.S., we rely on third-party payme services for the payment of foreign patent annuities and other fees. Non-payment or delay in payment c such fees, whether intentional or unintentional, may result in loss of patents or patent rights important t our business. Many countries, including certain countries in Europe, have compulsory licensing laws unde which a patent owner may be compelled to grant licenses to third parties (for example, the patent owne has failed to work the invention in that country, or the third party has patented improvements). In addi many countries limit the enforceability of patents against government agencies or government contractor In these countries, the patent owner may have limited remedies, which could materially diminish the valu of the patent. We also cannot assure you that we will be able to develop additional patentable technologie If we fail to obtain adequate patent

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protection for our technology, or if any protection we obtain becomes limited or invalidated, others may b
able to make and sell competing products, impairing our competitive position.

Our trade secrets, nondisclosure agreements and other contractual provisions to protect unpatente
technology provide only limited and possibly inadequate protection of our rights. As a result, third partie
may be able to use our unpatented technology, and our ability to compete in the market would be reduce
In addition, employees, consultants and others who participate in developing our products or i
commercial relationships with us may breach their agreements with us regarding our intellectual property
and we may not have adequate remedies for the breach.

Our competitors may independently develop similar or alternative technologies or products that are equa
or superior to our technology and products without infringing any of our patent or other intellectua
property rights, or may design around our proprietary technologies. In addition, the laws of some foreig
countries do not protect intellectual property rights to the same extent, as do the laws of the U.S
particularly in the field of medical products and procedures.

Third parties may assert that we are infringing their intellectual property rights.

Successfully commercializing our products will depend in part on not infringing patents held by thir
parties. It is possible that one or more of our products, including those that we have developed i
conjunction with third parties, infringes existing patents. We may also be liable for patent infringement b
third parties whose products we use or combine with our own and for which we have no right t
indemnification. In addition, because patent applications are maintained under conditions of confidentialit
and can take many years to issue, there may be applications now pending of which we are unaware an
which may later result in issued patents that our products infringe. Determining whether a produc
infringes a patent involves complex legal and factual issues and may not become clear until finall
determined by a court in litigation. Our competitors may assert that our products infringe patents held b
them. Moreover, as the number of competitors in our market grows the possibility of a patent infringemer
claim against us increases. If we were not successful in obtaining a license or redesigning our products, w
could be subject to litigation. If we lose in this kind of litigation, a court could require us to pay substantia
damages or prohibit us from using technologies essential to our products covered by third-party patent
An inability to use technologies essential to our products would have a material adverse effect on ou
financial condition, results of operations and cash flow and could undermine our ability to continu
operating as a going concern.

Expensive intellectual property litigation is frequent in the medical device industry.

Infringement actions, validity challenges and other intellectual property claims and proceedings, whethe
with or without merit, can be expensive and time-consuming and would divert management s attenti
from our business. We have incurred, and expect to continue to incur, substantial costs in obtaining patent
and may have to incur substantial costs defending our proprietary rights. Incurring such costs could have
material adverse effect on our financial condition, results of operations and cash flow.

**We may not be able to obtain all the licenses from third parties necessary for the development o
new products.**

As we develop additional disposable interventional devices for use with our system, we may find
advisable or necessary to seek licenses or otherwise make payments in exchange for rights from thir
parties who hold patents covering technology used in specific interventional procedures. If we canno
obtain the desired licenses or rights, we could be forced to try to design around those patents at additiona
cost or abandon the product altogether, which could adversely affect revenue and results of operations.
we have to abandon a product, our ability to develop and grow our business in new directions and market
would be adversely affected.

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Our products and related technologies can be applied in different industries, and we may fail t focus on the most profitable areas.

The Niobe system is designed to have the potential for expanded applications beyond electrophysiolog and interventional cardiology, including congestive heart failure, structural heart repair, interventiona neurosurgery, interventional neuroradiology, peripheral vascular, pulmonology, urology, gynecology an gastrointestinal medicine. We continue to develop the Odyssey system and the related Odyssey Enterpris Cinema and Odyssey Network Connect features, for interventional labs that have a Niobe system installe as well as those standard interventional labs that do not have a Niobe system installed. However, we hav limited financial and managerial resources and therefore may be required to focus on products in selecte industries and sites and to forego efforts with regard to other products and industries. Our decisions ma not produce viable commercial products and may divert our resources from more profitable marke opportunities. Moreover, we may devote resources to developing products in these additional areas bu may be unable to justify the value proposition or otherwise develop a commercial market for products w develop in these areas, if any. In that case, the return on investment in these additional areas may b limited, which could negatively affect our results of operations.

The rate of technological innovation of the Odyssey Enterprise Solution might not keep pace wit the rest of the market.

The rate of innovation for the market in which Odyssey competes is fast-paced and requires significan resources and innovation. The technology surrounding these products is still in its growth stages and if larger competitor with significant capital entered the market, it could be difficult for us to maintain ou advantages associated with being an early developer of this technology. In addition, connectivity wit other devices in the electrophysiology lab is a key driver of value for the Odyssey system. If the Compan is not able to continue to commit sufficient resources to ensure that its products are compatible with othe products within the electrophysiology lab, this could have a negative impact on Odyssey revenue.

We may be subject to damages resulting from claims that our employees or we have wrongfully use or disclosed alleged trade secrets of their former employers.

Many of our employees were previously employed at hospitals, universities or other medical devic companies, including our competitors or potential competitors. We could in the future be subject to claim that these employees or we have used or disclosed trade secrets or other proprietary information of the former employers. Litigation may be necessary to defend against these claims. If we fail in defending suc claims, in addition to paying monetary damages, we may lose valuable intellectual property rights o personnel. Even if we are successful in defending against these claims, litigation could result in substantia costs and be a distraction to management. Incurring such costs could have a material adverse effect on ou financial condition, results of operations and cash flow.

If we or our strategic partners fail to obtain or maintain necessary FDA clearances or approvals fo our medical device products, or if such clearances or approvals are delayed, we will be unable t continue to commercially distribute and market our products.

Our products are medical devices that are subject to extensive regulation in the U.S. and in foreig countries where we do business. Unless an exemption applies, each medical device that we wish to marke in the U.S. must first receive either a 510(k) clearance or a pre-market approval, or PMA, from the U.S Food and Drug Administration pursuant to the Federal Food, Drug, and Cosmetic Act. The FDA s 510 clearance process usually takes from four to 12 months, but it can take longer. The process of obtainin PMA approval is much more costly, lengthy, and uncertain, generally taking from one to three years o even longer. Although we have 510(k) clearance for our current Stereotaxis system, including a limite number of disposable interventional devices, and are able to market our system commercially in the U.S our business model relies significantly on revenue from disposable interventional devices, some of whic may not achieve FDA clearance or approval. We cannot assure you that any of our devices will not b required to undergo the lengthier and more burdensome

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PMA process. We cannot commercially market any disposable interventional devices in the U.S. until th necessary clearances or approvals from the FDA have been received. In addition, we are working wit third parties to co-develop disposable products. In some cases, these companies are responsible fo obtaining appropriate regulatory clearance or approval to market these disposable devices. If thes clearances or approvals are not received or are substantially delayed or if we are not able to offer sufficient array of approved disposable interventional devices, we may not be able to successfully marke our system to as many institutions as we currently expect, which could have a material adverse impact o our financial condition, results of operations and cash flow.

Furthermore, obtaining 510(k) clearances, PMAs or PMA supplement approvals, from the FDA coul result in unexpected and significant costs for us and consume management s time and other resources. T FDA could ask us to supplement our submissions, collect non-clinical data, conduct clinical trials o engage in other time-consuming actions, or it could simply deny our applications. In addition, even if w obtain a 510(k) clearance or PMA or PMA supplement approval, the clearance or approval could b revoked or other restrictions imposed if post-market data demonstrates safety issues or lack o effectiveness. We cannot predict with certainty how, or when, the FDA will act on our marketin applications. If we are unable to obtain the necessary regulatory approvals, our financial condition an cash flow may be adversely affected. Also, a failure to obtain approvals may limit our ability to gro domestically and internationally.

If our strategic partners or we fail to obtain regulatory approvals in other countries for product under development, we will not be able to commercialize these products in those countries.

In order to market our products outside of the U.S., we and our strategic partners must establish an comply with numerous and varying regulatory requirements of other countries regarding safety an efficacy. Approval procedures vary among countries and can involve additional product testing an additional administrative review periods. The time required to obtain approval in other countries migh differ from that required to obtain FDA approval. The regulatory approval process in other countries ma include all of the risks detailed above regarding FDA approval in the U.S. Regulatory approval in on country does not ensure regulatory approval in another, but a failure or delay in obtaining regulator approval in one country may negatively impact the regulatory process in others. Failure to obtai regulatory approval in other countries or any delay or setback in obtaining such approval could have th same adverse effects described above regarding FDA approval in the U.S. In addition, we are relying o our strategic partners in some instances to assist us in this regulatory approval process in countries outsid the U.S. and Europe, for example, in Japan.

We may fail to comply with continuing regulatory requirements of the FDA and other authoritie and become subject to substantial penalties.

Even after product clearance or approval, we must comply with continuing regulation by the FDA an other authorities, including the FDA s Quality System Regulation, or QSR, requirements, labeling a promotional requirements and medical device adverse event and other reporting requirements. Any failur to comply with continuing regulation by the FDA or other authorities could result in enforcement actio that may include suspension or withdrawal of regulatory approvals, recalling products, ceasing produc manufacture and/or marketing, seizure and detention of products, paying significant fines and penalties criminal prosecution and similar actions that could limit product sales, delay product shipment and harm our profitability. Congress could amend the Federal Food, Drug, and Cosmetic Act, and the FDA coul modify its regulations promulgated under this law in a way to make ongoing regulatory compliance mor burdensome and difficult.

Additionally, any modification to an FDA 510(k)-cleared device that could significantly affect its safety o effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearanc Modifications to a PMA approved device or its labeling may require either a new PMA or PMA supplement approval, which could be a costly and lengthy process. In addition, if we are unable to obtai on-label approval for key applications, we may face product market adoption barriers that we canno overcome. In the future, we may modify our products after they have received clearance or approval, an we may determine that new clearance or approval is unnecessary. We cannot assure you that the FD

would agree with any of our decisions

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not to seek new clearance or approval. If the FDA requires us to seek clearance or approval for an modification, we could be subject to enforcement sanctions and we also may be required to ceas marketing or recall the modified product until we obtain FDA clearance or approval which could also lim product sales, delay product shipment and harm our profitability.

In many foreign countries in which we market our products, we are subject to regulations affecting, amon other things, product standards, packaging requirements, labeling requirements, import restrictions, tari regulations, duties and tax requirements. Many of these regulations are similar to those of the FDA. I addition, in many countries the national health or social security organizations require our products to b qualified before procedures performed using our products become eligible for reimbursement. Failure t receive, or delays in the receipt of, relevant foreign qualifications could have a material adverse effect o our business, financial condition and results of operations. Due to the movement toward harmonization o standards in the European Union, we expect a changing regulatory environment in Europe characterized b a shift from a country-by-country regulatory system to a European Union-wide single regulatory systen We cannot predict the timing of this harmonization and its effect on us. Adapting our business to changin regulatory systems could have a material adverse effect on our business, financial condition, and results o operations. If we fail to comply with applicable foreign regulatory requirements, we may be subject t fines, suspension, or withdrawal of regulatory approvals, product recalls, seizure of products, operatin restrictions and criminal prosecution.

In addition, we are subject to the U.S. Foreign Corrupt Practices Act, antitrust and anti-competition law and similar laws in foreign countries. Any violation of these laws by our distributors or agents or by u could create a substantial liability for us and also cause a loss of reputation in the market. From time t time, we may face audits or investigations by one or more government agencies, compliance with whic could be costly and time-consuming, and could divert our management and key personnel from ou business operations. An adverse outcome under any such investigation or audit could subject us to fines o other penalties, which could adversely affect our business and financial results.

Our suppliers, subcontractors, or we may fail to comply with the FDA quality system regulation.

Our manufacturing processes must comply with the FDA s quality system regulation, or QSR, wh covers the methods and documentation of the design, testing, production, control, quality assurance labeling, packaging and shipping of our products. The FDA enforces the QSR through inspections. W cannot assure you that we or our suppliers or subcontractors would pass such an inspection. If we or ou suppliers or subcontractors fail to remain in compliance with the FDA or ISO 9001 standards, we or the may be required to cease all or part of our operations for some period of time until we or they ca demonstrate that appropriate steps have been taken to comply with such standards or face othe enforcement action, such as a public warning letter. We cannot be certain that our facilities or those of ou suppliers or subcontractors will comply with the FDA or ISO 9001 standards in future audits by regulator authorities. Failure to pass such an inspection could force a shut down of manufacturing operations, recall of our products or the imposition of other enforcement sanctions, which would significantly harm our revenue and profitability. Further, we cannot assure you that our key component suppliers are or wi continue to be in compliance with applicable regulatory requirements and will not encounter an manufacturing difficulties. Any failure to comply with the FDA s QSR by us or our suppliers cou significantly harm our available inventory and product sales.

Software errors or other defects may be discovered in our products.

Our products incorporate many components, including sophisticated computer software. Comple software frequently contains errors, especially when first introduced. Because our products are designed t be used to perform complex interventional procedures, we expect that physicians and hospitals will hav an increased sensitivity to the potential for software defects. We cannot assure you that our software o other components will not experience errors or performance problems in the future. If we experienc software errors or performance problems, we would likely also experience:

loss of revenue;

delay in market acceptance of our products;

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damage to our reputation;

additional regulatory filings;

product recalls;

increased service or warranty costs; and/or

product liability claims relating to the software defects.

If we fail to comply with health care regulations, we could face substantial penalties and ou business, operations and financial condition could be adversely affected.

While we do not control referrals of health care services or bill directly to Medicare, Medicaid or othe third-party payors, many health care laws and regulations apply to our business. We could be subject t health care fraud and patient privacy regulation by the federal government, the states in which we conduc our business, and internationally. The regulations that may affect our ability to operate include:

the federal healthcare program Anti-Kickback Law, which prohibits, among other things, person from soliciting, receiving or providing remuneration, directly or indirectly, to induce either th referral of an individual, for an item or service or the purchasing or ordering of a good or service for which payment may be made under federal health care programs such as the Medicare an Medicaid programs;

federal false claims laws which prohibit, among other things, individuals or entities fron knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid or other third-party payors that are false or fraudulent, and which may apply to entities like u which provide coding and billing advice to customers;

the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which prohibits executing a scheme to defraud any health care benefit program or making false statements relating to health care matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information;

state law equivalents of each of the above federal laws, such as anti-kickback and false claim laws which may apply to items or services reimbursed by any third-party payor, includin commercial insurers, and state laws governing the privacy of health information in certai circumstances, many of which differ from each other in significant ways and often are no preempted by HIPAA, thus complicating compliance efforts;

federal self-referral laws, such as STARK, which prohibits a physician from making a referral to provider of certain health services with which the physician or the physician s family member h a financial interest;

regulations pertaining to receipt of CE mark for our products marketed outside of the United States and submission to periodic regulatory audits in order to maintain these regulatory approvals; and

the Health Information Technology for Economic and Clinical Health Act (HITECH), w imposes breach notification requirements for vendors of personal health records and their thir party service providers.

If our operations are found to be in violation of any of the laws described above or any other governmenta regulations that apply to us, we may be subject to penalties, including civil and criminal penalties damages, fines, loss of reimbursement for our products under federal or state government health program such as Medicare and Medicaid and the curtailment or restructuring of our operations. Any penalties damages, fines, curtailment, or restructuring of our operations could adversely affect our ability to operat our business and our financial results. The risk of our being found in violation of these laws is increased b the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, an their provisions are open to a variety of interpretations. Any action against us for violation of these law even if we successfully defend

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against it, could cause us to incur significant legal expense and divert our management s attention from operation of our business. Moreover, to achieve compliance with applicable federal and state privacy security, and electronic transaction laws, we may be required to modify our operations with respect to th handling of patient information. Implementing these modifications may prove costly. At this time, we ar not able to determine the full consequences to us, including the total cost of compliance, of these variou federal and state laws.

Healthcare policy changes, including legislation pending in Congress to reform the U.S. healthcar system, may have a material adverse effect on us.

In response to perceived increases in health care costs in recent years, there have been and continue to b proposals by the Obama administration, members of Congress, state governments, regulators an third-party payors to control these costs and, more generally, to reform the U.S. healthcare systen Legislative proposals currently pending in Congress would impose significant new taxes on medica device makers such as us. The adoption of some or all of these proposals could have a material advers effect on our financial position and results of operations.

On November 7, 2009, the U.S. House of Representatives passed the Affordable Health Care for Americ Act, and on December 24, 2009, the U.S. Senate enacted similar, but not identical, healthcare reform legislation, and various proposals are being considered to bring such legislation into law, including budge reconciliation. We cannot predict whether legislation will be enacted, the final form any legislation migh take or the effects of such legislation. The current versions of both the House and Senate proposals woul impose significant new taxes on medical device makers. The total cost to the medical device industr could exceed $20 billion over ten years. These taxes, if implemented, would result in a significant increas in the tax burden on our industry, which could have a material, negative impact on our results o operations and our cash flows. Proposed legislation would also impose new payroll taxes, excise taxes income taxes and other taxes; provide for taxes/fees based upon domestic sales of devices; implemen changes to Medicare and Medicaid; establish a government health insurance option; and allow th government to mandate minimum levels of coverage and make comparative effectiveness recommendations. In summary, if legislation is enacted and depending on the form it takes, it could chang the way healthcare is developed and delivered, and may materially impact numerous aspects of ou business.

The application of state certificate of need regulations and compliance by our customers with federa and state licensing or other international requirements could substantially limit our ability to se our products and grow our business.

Some states require health care providers to obtain a certificate of need or similar regulatory approval prio to the acquisition of high-cost capital items such as our Niobe system. In many cases, a limited number o these certificates are available. As a result of this limited availability, hospitals and other health car providers may be unable to obtain a certificate of need for the purchase of our Niobe system. Further, ou sales and installation cycle for the Niobe system is typically longer in certificate of need states due to th time it takes our customers to obtain the required approvals. In addition, our customers must meet variou federal and state regulatory and/or accreditation requirements in order to receive payments fro government-sponsored health care programs such as Medicare and Medicaid, receive full reimbursemen from third party payors, and maintain their customers. Our international customers may be required t meet similar or other requirements. Any lapse by our customers in maintaining appropriate licensure certification or accreditation, or the failure of our customers to satisfy the other necessary requirement under government-sponsored health care programs or other requirements could cause our sales to decline.

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Hospitals or physicians may be unable to obtain reimbursement from third-party payors fo procedures using the Niobe system, or reimbursement for procedures may be insufficient to recou the costs of purchasing our products.

We expect that U.S. hospitals will continue to bill various third-party payors, such as Medicare, Medicai and other government programs and private insurance plans, for procedures performed with our product including the costs of the disposable interventional devices used in these procedures. If in the future ou disposable interventional devices do not fall within U.S. reimbursement categories and our procedures ar not reimbursed, or if the reimbursement is insufficient to cover the costs of purchasing our system an related disposable interventional devices, the adoption of our systems and products would be significantl slowed or halted, and we may be unable to generate sufficient sales to support our business. Our success i international markets also depends upon the eligibility of our products for reimbursement throug government-sponsored health care payment systems and third-party payors. In both the U.S. and foreig markets, health care cost-containment efforts are prevalent and are expected to continue. These effort could reduce levels of reimbursement available for procedures involving our products and, therefore reduce overall demand for our products as well. A failure to generate sufficient sales could have a materia adverse impact on our financial condition, results of operations and cash flow.

We may lose our key personnel or fail to attract and retain additional personnel.

We are highly dependent on the principal members of our management, scientific and sales staff. T pursue our plans and accommodate planned growth, we may choose to hire additional personne Attracting and retaining qualified personnel will be critical to our success, and competition for qualifie personnel is intense. We may not be able to attract and retain personnel on acceptable terms given th competition for qualified personnel among technology and healthcare companies and universities. The los of personnel or our inability to attract and retain other qualified personnel could harm our business and ou ability to compete. In addition, the loss of members of our scientific staff may significantly delay o prevent product development and other business objectives. A loss of key sales personnel could result in reduction of revenue.

Our growth will place a significant strain on our resources, and if we fail to manage our growth, ou ability to develop, market, and sell our products will be harmed.

Our business plan contemplates a period of substantial growth and business activity. This growth an activity will likely result in new and increased responsibilities for management personnel and plac significant strain upon our operating and financial systems and resources. To accommodate our growth an compete effectively, we will be required to improve our information systems, create additional procedure and controls and expand, train, motivate and manage our work force. We cannot be certain that ou personnel, systems, procedures, and controls will be adequate to support our future operations. Any failur to effectively manage our growth could impede our ability to successfully develop market and sell ou products.

We face currency and other risks associated with international operations.

We intend to continue to devote significant efforts to marketing our systems and products outside of th U.S. This strategy will expose us to numerous risks associated with international operations, which coul adversely affect our results of operations and financial condition, including the following:

- currency fluctuations that could impact the demand for our products or result in currenc exchange losses;

- export restrictions, tariff and trade regulations and foreign tax laws;

customs duties, export quotas or other trade restrictions;

economic and political instability; and

shipping delays.

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In addition, contracts may be difficult to enforce and receivables difficult to collect through a foreig country s legal system.

Risks Related To Our Common Stock

Our principal stockholders continue to own a large percentage of our voting stock, and they have th ability to substantially influence matters requiring stockholder approval.

Our executive officers, directors and individuals or entities affiliated with them beneficially own or contro a substantial percentage of the outstanding shares of our common stock. Accordingly, these executiv officers, directors and their affiliates, acting as a group, will have substantial influence over the outcome c corporate actions requiring stockholder approval, including the election of directors, any merge consolidation or sale of all or substantially all of our assets or any other significant corporate transactio These stockholders may also delay or prevent a change of control, even if such a change of control woul benefit our other stockholders. This significant concentration of stock ownership may adversely affect th trading price of our common stock due to investors perception that conflicts of interest may exist or arise

We have never paid dividends on our capital stock, and we do not anticipate paying any cas dividends in the foreseeable future.

We have paid no cash dividends on any of our classes of capital stock to date and we currently intend t retain our future earnings to fund the development and growth of our business. In addition, the terms o our loan agreement prohibit us from declaring dividends without the prior consent of our lender. As result, capital appreciation, if any, of our common stock will be an investor s sole source of gain for foreseeable future.

Our certificate of incorporation and bylaws, Delaware law and one of our alliance agreement contain provisions that could discourage a takeover.

Our certificate of incorporation and bylaws and Delaware law contain provisions that might enable ou management to resist a takeover. These provisions may:

- discourage, delay or prevent a change in the control of our company or a change in ou management;
- adversely affect the voting power of holders of common stock; and
- limit the price that investors might be willing to pay in the future for shares of our common stock

In addition, our alliance with Biosense Webster contains provisions that may similarly discourage takeover and negatively affect our share price as described above.

Sales of a substantial number of shares of our common stock in the public market, or the perceptio that they may occur, may depress the market price of our common stock.

Sales of substantial amounts of our common stock in the public market, or the perception that substantia sales may be made, could cause the market price of our common stock to decline. These sales might als make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

Evolving regulation of corporate governance and public disclosure may result in additional expense and continuing uncertainty.

Changing laws, regulations and standards relating to corporate governance and public disclosure, includin
the Sarbanes-Oxley Act of 2002, new SEC regulations and NASDAQ Global Market rules have in the pa
created uncertainty for public companies. We continue to evaluate and monitor developments with respe
to new and proposed rules and cannot predict or estimate the amount of the additional compliance costs w
may incur or

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the timing of such costs. These new or changed laws, regulations and standards are subject to varyin interpretations, in many cases due to their lack of specificity, and as a result, their application in practic may evolve over time as new guidance is provided by courts and regulatory and governing bodies. Th could result in uncertainty regarding compliance matters and higher costs necessitated by ongoin revisions to disclosure and governance practices. Maintaining appropriate standards of corporat governance and public disclosure may result in increased general and administrative expense and diversion of management time and attention from revenue-generating activities to compliance activities. addition, if we fail to comply with new or changed laws, regulations and standards, regulatory authoritie may initiate legal proceedings against us and our business and reputation may be harmed.

Our future operating results may be below securities analysts or investors expectations, which cou cause our stock price to decline.

The revenue and income potential of our products and our business model are unproven, and we may b unable to generate significant revenue or grow at the rate expected by securities analysts or investors. addition, our costs may be higher than we, securities analysts, or investors expect. If we fail to generat sufficient revenue or our costs are higher than we expect, our results of operations will suffer, which i turn could cause our stock price to decline. Our results of operations will depend upon numerous factor including

- demand for our products;
- the performance of third-party contract manufacturers and component suppliers;
- our ability to develop sales and marketing capabilities;
- the success of our collaborations with Siemens, Philips and Biosense Webster and others;
- our ability to develop, introduce and market new or enhanced versions of our products on a timel basis;
- our ability to obtain regulatory clearances or approvals for our new products; and
- our ability to obtain and protect proprietary rights.

Our operating results in any particular period may not be a reliable indication of our future performance. some future quarters, our operating results may be below the expectations of securities analysts o investors. If this occurs, the price of our common stock will likely decline.

We expect that the price of our common stock could fluctuate substantially, possibly resulting i class action securities litigation.

Our common stock is traded on the NASDAQ Global Market and trading volume may be limited o sporadic. The market price of our common stock has experienced, and may continue to experience substantial volatility. During 2009, our common stock traded between $2.30 and $5.19 per share, o trading volume ranging from approximately 76,000 to 1.7 million shares per day. The market price of ou common stock will be affected by a number of factors, including:

actual or anticipated variations in our results of operations or those of our competitors;

the receipt or denial of regulatory approvals;

announcements of new products, technological innovations or product advancements by us or ou
competitors;

developments with respect to patents and other intellectual property rights;

changes in earnings estimates or recommendations by securities analysts or our failure to achiev
analyst earnings estimates;

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developments in our industry; and

participants in the market for our common stock may take short positions with respect to ou common stock.

These factors, as well as general economic, credit, political and market conditions, may materiall adversely affect the market price of our common stock. As with the stock of many other public companie the market price of our common stock has been particularly volatile during the recent period of upheaval i the capital markets and world economy. This excessive volatility may continue for an extended period o time following the filing date of this report. Furthermore, the stock prices of many companies in th medical device industry have experienced wide fluctuations that have often been unrelated to the operatin performance of these companies. Volatility in the price of our common stock on the NASDAQ Globa Market may depress the trading price of our common stock, which could, among other things, allow potential acquirer of the Company to purchase a significant amount of our common stock at low price Additionally, following periods of volatility in the market price of a company s securities, stockhold have often instituted class action securities litigation against those companies. Class action securitie litigation, if instituted against us, could result in substantial costs and a diversion of our managemen resources, which could significantly harm our business.

Future issuances of our securities could dilute current stockholders ownership.

A number of shares of our common stock are subject to stock options, stock appreciation rights an warrants. We may also decide to raise additional funds through public or private debt or equity financin to fund our operations. We cannot predict the effect, if any, that future sales of debt, our common stoc other equity securities or securities convertible into our common stock or other equity securities or th availability of any of the foregoing for future sale, will have on the market price of our common stock o notes. Sales of substantial amounts of our common stock (including shares issued upon the exercise o stock options, stock appreciation rights or the conversion of any convertible securities outstanding now o in the future), or the perception that such sales could occur, may adversely affect prevailing market price for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have not received any written comments regarding our periodic or current reports from the staff of th SEC that were issued 180 days or more preceding the end of our 2009 fiscal year and that remai unresolved.

ITEM 2. PROPERTIES

Our primary company facilities are located in St. Louis, Missouri where we lease approximately 65,00 square feet of office and 12,000 square feet of demonstration and assembly space. This space is lease under an agreement through 2018. We also lease approximately 10,000 square feet in Maple Grov Minnesota. The Minnesota facility is leased through May 31, 2010.

In addition, we have leased office space in Amsterdam, The Netherlands; and in Beijing, China. Thes locations are leased through May 31, 2010 and September 30, 2010, respectively.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. [RESERVED]

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ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PRICE RANGE OF COMMON STOCK

Our common stock has been traded on the NASDAQ Global Market under the symbol STXS s August 12, 2004. The following table sets forth the high and low sales prices of our common stock for th periods indicated and reported by NASDAQ.

	High	Low
Year Ended December 31, 2009		
First Quarter	$ 4.65	$ 2.30
Second Quarter	4.88	2.98
Third Quarter	5.19	3.19
Fourth Quarter	4.67	3.49
Year Ended December 31, 2008		
First Quarter	$ 12.57	$ 3.37
Second Quarter	8.01	4.58
Third Quarter	7.99	4.63
Fourth Quarter	6.64	2.25

As of February 28, 2010, there were approximately 275 stockholders of record of our common stock although we believe that there is a significantly larger number of beneficial owners of our common stock.

DIVIDEND POLICY

We have never declared or paid any cash dividends. We currently expect to retain earnings for use in th operation and expansion of our business, and therefore do not anticipate paying any cash dividends for th next several years. In addition, the terms of our loan agreement prohibit us from declaring dividend without the prior consent of our lender.

The information required by this item regarding equity compensation is incorporated by reference to th information set forth in Item 12 of this Annual Report on Form 10-K.

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STOCK PRICE PERFORMANCE GRAPH

The following graph shows the total stockholder return from December 31, 2004 through December 31
2009 for a $100 investment in Stereotaxis, Inc., the NASDAQ Composite (U.S.) Index and the NASDAQ
Medical Device Index. All values assume reinvestment of the full amount of all dividends althoug
dividends have never been declared on Stereotaxis common stock. The stock price performance shown
the graph below is not necessarily indicative of, nor is it intended to forecast, the potential futur
performance of our common stock.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data has been derived from, and should be read i conjunction with our financial statements and the accompanying notes and Management s Discussion Analysis of Financial Condition and Results of Operations included elsewhere in this report. The selec data in this section is not intended to replace the financial statements. Historical results are not indicativ of the results to be expected in the future.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
Consolidated Statements of Operations Data:					
Revenue	$ 51,149,555	$ 40,365,173	$ 39,298,809	$ 27,191,706	$ 15,026,390
Cost of revenue	17,021,633	14,177,790	15,346,220	12,892,749	7,720,706
Gross margin	34,127,922	26,187,383	23,952,589	14,298,957	7,305,684
Operating costs and expenses:					
Research and development	14,260,854	17,422,828	25,471,809	21,794,177	17,829,282
Sales and marketing	28,694,540	28,660,663	29,021,117	22,533,882	16,106,621
General and administrative	15,010,490	21,121,164	18,701,726	16,642,359	14,449,326
Royalty settlement					2,923,111
Total operating expenses	57,965,884	67,204,655	73,194,652	60,970,418	51,308,340
Operating loss	(23,837,962)	(41,017,272)	(49,242,063)	(46,671,461)	(44,002,656)
Interest and other income (expense), net	(3,656,495)	(2,868,702)	1,120,549	951,691	444,821
Net loss	$ (27,494,457)	$ (43,885,974)	$ (48,121,514)	$ (45,719,770)	$ (43,557,835)
Basic and diluted net loss per common share	$ (0.63)	$ (1.20)	$ (1.34)	$ (1.39)	$ (1.60)
Shares used in computing basic and diluted net loss per common share	43,344,324	36,585,086	35,793,973	32,979,403	27,301,822
Consolidated Balance Sheet Data:					
	$ 30,546,550	$ 30,355,657	$ 23,656,378	$ 36,983,781	$ 10,735,587

Cash, cash equivalents and short-term investments					
Working capital	22,878,277	23,331,906	21,925,716	40,383,798	15,896,719
Total assets	56,120,516	59,440,365	60,475,794	69,290,660	36,658,189
Long-term debt, less current maturities	20,346,655	25,271,547	6,000,000	305,556	1,972,222
Accumulated deficit	(323,452,784)	(295,958,327)	(252,072,353)	(203,950,839)	(158,231,069)
Total stockholders equity	7,641,343	4,770,681	24,194,407	44,788,992	18,125,842

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ITEM 7. 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-K. Operating results are not necessarily indicative of results that may occur in future periods.

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

Overview

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

We believe that our Niobe system 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 complex cardiology procedures. We also believe that our system is the only technology to be commercialized that allows remote, computerized control of catheters and guidewires directly at the working tip. 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.

In addition to the Niobe system and its components, Stereotaxis also has developed the Odyssey Enterprise Solution which consolidates all lab information enabling doctors to focus on the patient for optimal procedure efficiency. The system also features a remote viewing and recording capability called Odyssey Enterprise 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 Enterprise 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 Odyssey that we believe can improve clinical workflows and related efficiencies.

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In the mid 1990 s, we began focusing on developing applications for our technology to treat cardiovascu diseases because of the significant market opportunities for these applications. During 2003, followin receipt of marketing clearance from the FDA for our current system, we emerged from the developmer stage and began to generate revenue from the placement of investigational systems and the commercia launch of our cardiology system in the U.S. and Europe.

In August 2006, the Company filed a universal shelf registration statement for the issuance and sale fro time to time to the public of up to $75 million in securities, including debt, preferred stock, common stoc and warrants. The shelf registration was declared effective by the SEC in September 2006. In March 200 we completed an offering of 1,919,000 shares of our common stock at $10.50 per share, receivin approximately $20.1 million in net proceeds.

In December 2008 we completed two concurrent registered direct offerings of our common stock. In on of the offerings, affiliates of two members of our board of directors (the Lenders) purchased a tot 2,024,260 shares of our common stock at $4.94 per share including warrants to purchase 4,859,504 share of our common stock at $4.64 per share exercisable through June 2014. In the other offering, we sol 2,389,877 shares of our common stock at $4.18 per share including Series A warrants to purchase a additional 1,792,408 shares of our common stock at $5.11 per share exercisable through June 2014, Serie B warrants to purchase an additional 2,148,739 shares of our common stock at $4.65 per share with a expiration date in June 2009, and Series C and D warrants to purchase up to an aggregate of 682,82 shares of our common stock which were exercisable under certain defined conditions at an exercise pric of $0.001 per share through May 2009. The investors in this transaction became entitled to exercise an did exercise, all of their Series C warrants to purchase 341,412 shares of common stock in March 2009 an 279,170 of their Series D warrants in May 2009; the balance of the Series D warrants, for 62,242 share went unexercised. The Series A warrants to purchase 1,792,408 shares had an anti-dilution protection tha was triggered in February 2009, reducing the exercise price to $3.16 per share. The Series B warrant expired unexercised. In conjunction with these transactions, we received approximately $18.8 million i net proceeds after deducting offering expenses.

In August 2009 we filed a universal shelf registration statement for the issuance and sale from time to tim to the public of up to $75 million in securities, including debt, preferred stock, common stock, an warrants. The registration statement was declared effective by the SEC in September 2009.

In October 2009 we completed a public offering of our common stock in which we issued 7,475,00 shares at $4.00 per share and realized approximately $27.8 million in proceeds, net of fees and expenses.

We generate revenue from both the initial capital sales of the Niobe and Odyssey systems as well a recurring revenue from the sale of our proprietary disposable devices, from ongoing license and servic contracts, and from royalties paid to the Company on the sale by Biosense Webster of co-partnere catheters. We market our products to a broad base of hospitals in the United States and internationally a detailed in Note 14 to the financial statements. Due to an increase in our installed base and to th introduction and regulatory approval of a broader range of catheters and guidewires for use with the Niob system, recurring revenue has increased from 23% of total revenues in 2007 to 30% in 2008 and 36% i 2009.

Since our inception, we have generated significant losses. As of December 31, 2009, we had incurre cumulative net losses of approximately $323 million. We expect to incur additional losses into 2010 as w continue the development and commercialization of our products, conduct our research and developmer activities and advance new products into clinical development from our existing research programs an fund additional sales and marketing initiatives.

We have alliances with each of Siemens AG Medical Solutions, Philips Medical Systems and Biosens Webster, Inc., through which we integrate our Niobe system with market leading digital imaging and 3I catheter location sensing technology, as well as disposable interventional devices, in order to continue t develop new

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solutions in the interventional lab. Each of these alliances provides for coordination of our sales an marketing activities with those of our partners. In addition, Siemens is our product distributor in certai countries and has agreed to provide worldwide service for our integrated systems.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financia statements, which have been prepared in accordance with U.S. generally accepted accounting principle The preparation of these financial statements requires us to make estimates and judgments that affect th reported amounts of assets, liabilities, revenue and expenses and related disclosures. We review ou estimates and judgments on an on-going basis. We base our estimates and judgments on historica experience and on various other assumptions that we believe to be reasonable under the circumstance Actual results may differ from these estimates. We believe the following accounting policies are critical t the judgments and estimates we use in preparing our financial statements.

Revenue Recognition

The Company adopted Accounting Standards Update 2009-13, *Multiple-Deliverable Revenu Arrangements* (ASU 2009-13) in the fourth quarter of 2009, effective as of January 1, 2009. Prior to adoption of this guidance, the Company followed previously issued guidance for general accountin principles for revenue arrangements with multiple deliverables. Under this guidance, we were required t continually evaluate whether we had proper evidence to identify separate units of accounting fo deliverables within certain contractual arrangements with customers. If we were unable to support th determination of vendor-specific objective evidence (VSOE) or third party evidence (TPE) of fair v the undelivered element, we could not recognize revenue for the delivered elements.

ASU 2009-13 permits management to estimate the selling price of undelivered components of a bundle sale for which it is unable to establish VSOE or TPE. This requires management to record revenue fo certain elements of a transaction even though it might not have delivered other elements of the transactio for which it was unable to meet the requirements for establishing VSOE or TPE. The Company believe that the new guidance will significantly improve the reporting of these types of transactions to mor closely reflect the underlying economic circumstances. This guidance also prohibits the use of the residua method for allocating revenue to the various elements of a transaction and requires that the revenue b allocated proportionally based on the relative estimated selling prices.

Under our revenue recognition policy before and after the adoption of ASU 2009-13, a portion of revenu for Niobe system sales is recognized upon delivery, provided that title has passed, there are n uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixe and determinable, and collection of the related receivable is reasonably assured. When installation is th responsibility of the customer, revenue from system sales is recognized upon shipment since thes arrangements do not include an installation element or right of return privileges. We may deliver system to a non-hospital site at the customer s request. We evaluate whether delivery has occurred consideri general accounting principles for revenue recognition with respect to bill and hold transactions. Reven recognized for Odyssey systems upon completion of installation. Amounts collected prior to satisfying th above revenue recognition criteria are reflected as deferred revenue. Revenue from services and licens fees, whether sold individually or as a separate unit of accounting in a multi-element arrangement, i deferred and amortized over the service or license fee period, which is typically one year. Revenue fro services is derived primarily from the sale of annual product maintenance plans. We recognize revenu from disposable device sales or accessories upon shipment and establish an appropriate reserve for return The return reserve, which is applicable only to disposable devices, is estimated based on historica experience which is periodically reviewed and updated as necessary. In the past, changes in estimate hav had only a de minimus effect on revenue recognized in the period. We believe that the estimate is no likely to change significantly in the future.

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Stock-based Compensation

Stock compensation expense, which is a non-cash charge, results from stock option and stock appreciatio rights grants made to employees, directors and consultants at the fair value of the option granted, and fro grants of restricted shares to employees. The fair value of options and stock appreciation rights grante was determined using the Black-Scholes valuation method which gives consideration to the estimate value of the underlying stock at the date of grant, the exercise price of the option, the expected dividen yield and volatility of the underlying stock, the expected life of the option and the corresponding risk-fre interest rate. The fair value of the grants of restricted shares, all of which were granted after we became public company, was determined based on the closing price of our stock on the date of grant. Stoc compensation expense for options, stock appreciation rights and for time-based restricted share grants amortized on a straight-line basis over the vesting period of the underlying issue, generally over four yea except for grants to directors which generally vest over one to two years. Stock compensation expense fo performance-based restricted shares is amortized on a straight-line basis over the anticipated vesting perio and is subject to adjustment based on the actual achievement of objectives. Compensation expenses relate to option grants to non-employees are remeasured quarterly through the vesting date. Compensatio expense is recognized only for those options expected to vest, net of estimated forfeitures. Estimates of th expected life of options has been based on the average of the vesting and expiration periods, the simplifie method under general accounting principles for share-based payments. Estimates of volatility an forfeiture rates utilized in calculating stock-based compensation have been prepared based on historica data and future expectations. Actual experience to date has been consistent with these estimates.

The amount of compensation expense to be recorded in future periods may increase if we make additiona grants of options, stock appreciation rights or restricted shares or if we determine that actual forfeitur rates are less than anticipated. The amount of expense to be recorded in future periods may decrease if w do not achieve the performance objectives by which certain restricted shares are contingent, if the requisit service periods are not completed or if the actual forfeiture rates are greater than anticipated.

Valuation of Inventory

We value our inventory at the lower of the actual cost of our inventory, as determined using the first-in first-out (FIFO) method, or its current estimated market value. We periodically review our physica inventory for excess, obsolete, and potentially impaired items and reserve accordingly. Our reserv estimate for excess and obsolete is based on expected future use. Our reserve estimates have historicall been consistent with our actual experience as evidenced by actual sale or disposal of the goods.

Deferred Income Taxes

Deferred assets and liabilities are determined based on the difference between the financial statement an tax bases of assets and liabilities using the enacted tax rates in effect for the year in which the difference are expected to affect taxable income. Valuation allowances are established when necessary to reduc deferred tax assets to the amounts expected to be realized. We have established a valuation allowanc against the entire amount of our deferred tax assets because we are not able to conclude, due to our histor of operating losses, that it is more likely than not that we will be able to realize any portion of the deferre tax assets.

In assessing whether and to what extent deferred tax assets are realizable, we consider whether it is mor likely than not that some portion or all of the deferred tax assets will not be realized. The ultimat realization of deferred tax assets is dependent upon the generation of future taxable income during th periods in which those temporary differences become deductible. We consider projected future taxabl income and tax planning strategies in making this assessment. Based upon the level of historical taxabl losses, limitations imposed by Section 382 of the Internal Revenue Code and projections for future losse over periods which the deferred tax assets are deductible, we determined that a 100% valuation allowanc of deferred tax assets was appropriate.

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Results of Operations

Comparison of the Years ended December 31, 2009 and 2008

Revenue. Revenue increased to $51.1 million for the year ended December 31, 2009 from $40.4 millio for the year ended December 31, 2008, an increase of approximately 27%. Revenue from sales of system increased to $32.7 million for the year ended December 31, 2009 from $28.4 million for the year ende December 31, 2008, an increase of approximately 15%. The number of units recognized to revenue was 2 Niobe systems, 23 Odyssey Vision systems, and 6 Odyssey Enterprise Cinema systems during the 200 reporting period compared to 25 Niobe systems and 14 Odyssey Vision systems during the 2008 reportin period. The Niobe units recognized in the 2009 period carried a slightly higher average selling price, als contributing to the year over year increase in systems revenue. Revenue from sales of disposabl interventional device royalties, service and accessories increased to $18.5 million for the year ende December 31, 2009 from $12.0 million for the year ended December 31, 2008, an increase o approximately 54%. This increase was attributable to price increases and a larger base of installed systems

Cost of Revenue. Cost of revenue increased to $17.0 million for the year ended December 31, 2009 fro $14.2 million for the year ended December 31, 2008, an increase of approximately 20%. Cost of revenu for systems sold increased to $13.2 million for the year ended December 31, 2009 from $12.0 million fo the year ended December 31, 2008, an increase of approximately 10% primarily due to the costs associate with the additional 9 Odyssey Vision systems and 6 Odyssey Enterprise Cinema systems recognized i 2009. Cost of revenue for disposable interventional devices, service and accessories increased to $3. million for the year ended December 31, 2009 from $2.2 million for the year ended December 31, 2008, a increase of approximately 74%. This increase was due to the costs associated with the increased volume o disposable devices sold, higher software costs associated with new generation software upgrades an service costs associated with first generation Niobe systems. As a percentage of our revenue, total cost o revenue was approximately 33% in the year ended December 31, 2009 compared to 35% for the yea ended December 31, 2008.

Research and Development Expense. Research and development expense decreased to $14.3 million fo the year ended December 31, 2009 from $17.4 million for the year ended December 31, 2008, a decreas of approximately 18%. The decrease was due principally to a decrease in development costs related to new product introductions.

Sales and Marketing Expense. Sales and marketing expense remained unchanged at $28.7 million for th year ended December 31, 2009, consistent with the year ended December 31, 2008. Decreases in selecte marketing activities and personnel costs were offset by the increase related to stock-based compensatio expense, as well as mobile showroom disposal and demo system impairment.

General and Administrative Expense. General and administrative expense decreased to $15.0 million fo the year ended December 31, 2009 from $21.1 million for the year ended December 31, 2008, a decreas of approximately 29%. The decrease relates to certain one-time expenses incurred in 2008, includin expenses associated with the retirement of our CEO of $1.7 million, regulatory activity to further th Company s product registration in Japan, and an impairment charge of $0.5 million for a long-te investment.

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

Interest Income. Interest income decreased approximately 77% to $45,000 for the year ende December 31, 2009 from $195,000 for the year ended December 31, 2008. Interest income decreased du principally to lower average invested balances during 2009.

Interest Expense. Interest expense increased to $4.6 million for the year ended December 31, 2009 fro $3.1 million for the year ended December 31, 2008. Interest expense increased primarily due to the writ

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warrants issued during 2009 related to the guarantees under the line of credit received from stockholder who are affiliates of two members of our board of directors (Lenders), which expired upon our Oct 2009 equity offering.

Comparison of the Years ended December 31, 2008 and 2007

Revenue. Revenue increased to $40.4 million for the year ended December 31, 2008 from $39.3 millio for the year ended December 31, 2007, an increase of approximately 3%. Revenue from sales of system decreased to $28.4 million for the year ended December 31, 2008 from $30.1 million for the year ende December 31, 2007, a decrease of approximately 6%. The number of units recognized to revenu decreased from 27 Niobe systems during the 2007 reporting period to 25 Niobe systems and 14 Odysse Vision systems during the 2008 reporting period. The Niobe units recognized in the 2007 period carried somewhat higher average selling price, also contributing to the year over year decrease in systems revenu Revenue from sales of disposable interventional devices, service and accessories increased to $12. million for the year ended December 31, 2008 from $9.2 million for the year ended December 31, 2007, a increase of approximately 31%. This increase was attributable to the increased base of installed systems.

Cost of Revenue. Cost of revenue decreased to $14.2 million for the year ended December 31, 2008 fro $15.3 million for the year ended December 31, 2007, a decrease of approximately 8%. Cost of revenue fo systems sold increased to $12.0 million for the year ended December 31, 2008 from $11.0 million for th year ended December 31, 2007, an increase of approximately 9% primarily due to the costs associate with the 14 Odyssey Vision systems recognized in 2008 as well as increased installation costs incurred i 2008 compared to 2007. Cost of revenue for disposable interventional devices, service and accessorie decreased to $2.2 million for the year ended December 31, 2008 from $2.5 million for the year ende December 31, 2007 a decrease of approximately 13%. This decrease was due principally to a reduction i labor costs allocated to service revenues. As a percentage of our revenue, total cost of revenue wa approximately 35% in the year ended December 31, 2008 compared to 39% for the year ende December 31, 2007. The adjustment to the carrying value of the Niobe system in the year ende December 31, 2007 was 5% of total revenue.

Research and Development Expense. Research and development expense decreased to $17.4 million fo the year ended December 31, 2008 from $25.5 million for the year ended December 31, 2007, a decreas of approximately 32%. The decrease was due principally to a decrease in development costs related to ne product introductions.

Sales and Marketing Expense. Sales and marketing expense remained almost unchanged at $28.7 millio for the year ended December 31, 2008 compared to $29.0 million for the year ended December 31, 200 Decreases in selected marketing activities and non-cash compensation were offset by increase compensation and related expenses associated with expanded sales operations.

General and Administrative Expense. General and administrative expense increased to $21.1 million fo the year ended December 31, 2008 from $18.7 million for the year ended December 31, 2007, an increas of approximately 13%. The increase relates to certain one-time expenses incurred in 2008, includin expenses associated with the retirement of our CEO of $1.7 million, regulatory activity to further th Company s product registration in Japan, an impairment charge of $0.5 million for a long-term investm and a recorded foreign exchange loss during the 2008 reporting period compared with a foreign exchang gain during the 2007 reporting period.

Interest Income. Interest income decreased approximately 87% to $0.2 million for the year ende December 31, 2008 from $1.5 million for the year ended December 31, 2007. Interest income decrease due principally to lower average invested balances during 2008.

Interest Expense. Interest expense increased to $3.1 million for the year ended December 31, 2008 fro $0.4 million for the year ended December 31, 2007. Interest expense increased primarily due to th amortization

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of warrants issued during 2008 related to the guarantees under the line of credit received from the Lende and higher average outstanding balances due to our bank loan balances during the 2008 reporting period a well as the amounts received or deferred in connection with the July 2008 Biosense Webster agreement.

Income Taxes

Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which ar uncertain. Accordingly, net deferred tax assets have been fully offset by valuation allowances as o December 31, 2009, 2008 and 2007 to reflect these uncertainties. As of December 31, 2009, we ha federal net operating loss carryforwards of approximately $290.8 million of which approximately $4. million will expire between 2010 and 2012 and approximately $286.8 million will expire between 201 and 2029. As of December 31, 2009, we had state net operating loss carryforwards of approximately $6. million which will expire at various dates between 2010 and 2029 if not utilized. We may not be able t utilize all of these loss carryforwards prior to their expiration.

Liquidity and Capital Resources

Borrowing facilities

In February 2008 we entered into a Loan and Warrant Purchase Agreement with the Lenders, providing fo a $20 million commitment of funds to be provided either as direct loans to us or as a guarantee of amoun borrowed by us under our working capital facility with our primary lending bank. In connection with th transaction, in March 2008 we amended our loan agreement with our primary lender to increas availability under the working capital line to $30 million subject to qualifying receivable and inventor balance limitations, including up to $10 million to be secured by guarantees from the Lenders, and t extend the maturity of the line to March 31, 2009.

In July 2008, we amended our existing agreements with Biosense Webster. Pursuant to the amendmen Biosense Webster agreed to advance us $10.0 million against royalty amounts that were owed to us fro Biosense Webster at the time the amendment was executed or that would be owed in the future. We als agreed that an aggregate of up to $8.0 million of certain agreed upon research and development expense that were owed at the time the amendment was executed or may be owed in the future by us to Biosens Webster would be deferred and will be due, together with any unrecouped portion of the $10.0 millio royalty advance, on the Final Payment Date, as defined in the amendment, but in no event later tha December 31, 2011. See Note 7 for additional description of Final Payment Date. We have the right t prepay any amounts due pursuant to the amendment at any time without penalty. As of December 3 2009, approximately $18.0 million had been advanced by Biosense Webster to us pursuant to th amendment. As of December 31, 2009, $5.9 million of royalty amounts earned had been used to reduce th advances and the remaining approximately $13.3 million of amounts owed to Biosense Webster has bee classified as debt on our balance sheet including $3.0 million as short-term debt and $10.3 million a long-term debt. Commencing on May 15, 2010 we are required to make quarterly payments to Biosens Webster equal to the difference between certain aggregate royalty payments recouped by Biosens Webster from us in such quarter and $1 million, until the earlier of (1) the date all funds owed by us t Biosense Webster pursuant to the amendment are fully repaid or (2) the Final Payment Date. Interest o the outstanding and unrecouped amounts of the royalty advance and deferred research and developme expenses will accrue at an interest rate of the prime rate plus 0.75%. Outstanding royalty advances an deferred research and development expenses and accrued interest thereon will be recouped by Biosens Webster from time to time by deductions from royalty amounts otherwise payable to us.

In November 2008, the Lenders committed to extend their February 2008 agreement to loan us a aggregate of $20 million on an unsecured basis. As amended, the commitment expired on the earlier o March 31, 2010 or the date we received at least $20 million of third party, non-bank financing. Thi facility could also be used by us to guarantee our loan commitments to our primary bank lender, throug the same extended term. In February

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2009 we issued the Lenders warrants to purchase an aggregate of 1,582,280 shares of common stock at a exercise price of $3.16 per share in exchange for the extension of the commitment. The Company recorde a fair value of $2,072,786 related to these warrants.

In March 2009, the Company and its primary lending bank entered into an agreement to amend th revolving line of credit to change the total availability under the line to $25 million, to extend the term o the agreement to March 31, 2010, to modify the tangible net worth requirements, and to provide fo additional borrowing capacity as it relates to advances against accounts receivable from non-U.S customers.

In October 2009, the Company received from the Lenders an extension of their commitment to provid $10 million in either direct loans to the Company or loan guarantees to the Company s primary bank lend through the earlier of March 31, 2011 or the date the Company receives $30 million of third party non-bank financing, coincidental with the proposed maturity of the bank line of credit, as amended. Th Company granted to the Lenders warrants to purchase 664,064 shares in exchange for their extension. Th warrants are exercisable at $4.25 per share, beginning on March 1, 2010 and expiring on February 28 2015. The fair value of these warrants of $1,232,503, calculated using the Black Scholes method, will b deferred and amortized to interest expense ratably. As the previous guarantee was no longer in effect, th Company expensed in 2009 the entire balance on the warrants issued to the Lenders in February 2009.

In December 2009, we amended our loan agreement with our primary lender to extend the maturity of th current working capital line of credit from March 31, 2010 to March 31, 2011 and to increase the tota availability under the line from $25 million to $30 million, retaining the $10 million sublimit fo borrowings supported by guarantees from the Lenders. Under the revised facility we are required t maintain a minimum tangible net worth as defined in the agreement. As of December 31, 2009 Company is in compliance with all of the requirements of the loan agreement.

Common Stock

In August 2006, the Company filed a universal shelf registration statement for the issuance and sale fro time to time to the public of up to $75 million in securities, including debt, preferred stock, common stoc and warrants. The shelf registration was declared effective by the SEC in September 2006. In March 200 the Company completed an offering of 1,919,000 shares of its common stock at $10.50 per share pursua to the shelf registration. In conjunction with this transaction, the Company received approximately $20. million in net proceeds after deducting offering expenses.

In December 2008, we completed a registered direct offering in which we issued and sold 2,389,877 uni (the Units) at the negotiated price of $4.18 per Unit, with each Unit consisting of (i) one share o Company s common stock, (ii) one warrant to purchase 0.75 shares of common stock at an exercise price $5.11 per share (the Series A Warrant), for an aggregate of up to 1,792,408 shares of common st (iii) one six-month warrant to purchase 0.90 shares of common stock at an exercise price of $4.65 pe share (the Series B Warrant), for an aggregate of up to 2,148,739 shares of common stock, and (iv) warrants to purchase 0.286 shares of common stock at an exercise price of $0.001 per share (the Series and D Warrants), for an aggregate of up to 682,824 shares of common stock. Exercise of the Series C a Series D warrants were conditioned upon certain events. The Series B Warrants expired unexercised. Th exercise price of the Series A warrants was adjusted to $3.16 in February 2009, and is subject to furthe adjustment, as described in Note 9 to the Financial Statements. The investors in this transaction becam entitled to exercise and did exercise, the Series C and D warrants to purchase an aggregate of 620,58 shares of common stock in March and May 2009, respectively. In addition, concurrently with suc offering, we completed a registered direct offering with the Lenders in which we issued and sold 2,024,26 shares of common stock and warrants to purchase up to 4,859,504 shares of common stock, for a purchas price of $4.94 per unit. The warrants are exercisable at $4.64 per share, are exercisable on or after the dat immediately following the six month anniversary of their issuance and have a five year term from tha initial exercisability date. In conjunction with the two offerings, we received

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proceeds of approximately $18.8 million net of offering expenses. Conditioned upon the closing of th registered direct offerings, we agreed that the loan obligations of the Lenders would decrease from a aggregate of $20 million to $10 million.

In August 2009 we filed a universal shelf registration statement for the issuance and sale from time to tim to the public of up to $75 million in securities, including debt, preferred stock, common stock, an warrants. The registration statement was declared effective by the SEC in September 2009.

In October 2009, we completed an offering of 7,475,000 shares of our common stock at $4.00 per shar receiving approximately $27.8 million in net proceeds.

Liquidity refers to the liquid financial assets available to fund our business operations and pay fo near-term obligations. These liquid financial assets consist of cash and cash equivalents.

The following table summarizes our cash flow by operating, investing and financing activities for each o years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Cash Flow used in operating activities	$ (22,309)	$ (28,655)	$ (35,713)
Cash Flow provided by (used in) investing activities	(1,484)	4,986	10,596
Cash Flow provided by financing activities	23,984	37,002	26,929

Net cash used in operating activities. We used approximately $22.3 million, $28.7 million and $35. million of cash in operating activities during the years ended December 31, 2009, 2008 and 200 respectively, primarily as a result of operating losses during these periods. We used approximately $1. million to fund operating assets and liabilities during the year ended December 31, 2009 compared to $6. million generated during the year ended December 31, 2008 primarily as a result of an increase in accoun receivable and fewer customer deposits in deferred revenue.

Net cash provided by (used in) investing activities. We used approximately $1.5 million to fund investin activities during the year ended December 31, 2009 for the purchase of property and equipment. W generated cash from investing activities of $5.0 million and $10.6 million during the years ende December 31, 2008 and 2007, respectively. The cash generated from 2008 and 2007 investing activitie was due to the sale of investments partially offset by purchases of property and equipment of $1.7 millio and $4.7 million in 2008 and 2007, respectively.

Net cash provided by financing activities. We realized approximately $24.0 million from financin activities during the year ended December 31, 2009 principally from the sale of our common stock i which we realized approximately $27.8 million in net proceeds. We realized approximately $37.0 millio from financing activities during the year ended December 31, 2008 principally from the $10 million i borrowings under our line of credit, $10 million received under our agreement with Biosense Webster a described above, and the $19.7 million in net proceeds from the sale of our common stock. We realize approximately $26.9 million from financing activities during the year ended December 31, 200 principally from the sale of our common stock in which we realized approximately $20.1 million in n proceeds and from a $5.0 million borrowing under our line of credit.

At December 31, 2009, we had working capital of approximately $22.9 million, compared to $23.3 millio at December 31, 2008.

As of December 31, 2009, we had outstanding balances under various equipment loan agreement consisting of an aggregate of approximately $0.3 million. In addition, we had $10 million outstandin under the revolving line of credit and had an unused line of approximately $20 million with curren borrowing capacity of $15.9 million, including amounts already drawn. As such, we had the ability t borrow an additional $5.9 million under the revolving line of credit at December 31, 2009. As o

December 31, 2009, we were in compliance with all covenants of the bank loan agreement.

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These credit facilities are secured by substantially all of our assets. The credit agreements includ customary affirmative, negative and financial covenants. For example, we are restricted from incurrin additional debt, disposing of or pledging our assets, entering into merger or acquisition agreement making certain investments, allowing fundamental changes to our business, ownership, management o business locations, and from making certain payments in respect of stock or other ownership interest such as dividends and stock repurchases. Under our loan arrangements, as in effect at December 31, 200 and as modified in December 2009, we are required to maintain various levels of tangible net worth defined in the loan agreement. We are also required under the credit agreements to maintain our primar operating account and the majority of our cash and investment balances in accounts with our primar lending bank. As of the amendment date and as of December 31, 2009, we were in compliance with a covenants of this agreement.

We expect to have negative cash flow from operations into 2010. Throughout 2010, we expect to continu the development and commercialization of our existing products and, to a lesser extent, our research an development programs and the advancement of new products into clinical development. We expect tha our sales and marketing expenditures and our general and administrative expenses will increase in 2010 i order to support our product commercialization efforts. Until we can generate significant cash flow fro our operations, we expect to continue to fund our operations with existing cash resources that wer primarily generated from the proceeds of our public offerings, private sales of our equity securities an working capital and equipment financing loans. In the future, we may finance future cash needs throug the sale of other equity securities, strategic collaboration agreements and debt financings. We canno accurately predict the timing and amount of our utilization of capital, which will depend on a number o factors outside of our control.

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

Off-Balance Sheet Arrangements

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

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Contractual Obligations

The following table summarizes all significant contractual payment obligations by payment due date:

	Payments by Period				
Contractual Obligations	**Under 1 Year**	**1 3 Years**	**3 5 Years**	**Over 5 Years**	**Total**
	(In thousands)				
Long-term debt (1)	$ 3,333	$ 20,347	$	$	$ 23,680
Operating leases	1,667	3,042	3,090	7,622	15,421
Capital leases	10	17	2		29
Total	$ 5,010	$ 23,406	$ 3,092	$ 7,622	$ 39,130

(1) We have not included interest payable on our term notes or our revolving credit agreement in thes amounts because the interest on these obligations is calculated at a variable rate.

Commercial Commitments

We have entered into letters of credit to support certain commitments in the aggregate amount of $0. million. These letters of credit expire in March 2010, June 2010 and February 2011.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Risk

We operate mainly in the U.S., Europe and Asia and we expect to continue to sell our products both withi and outside of the U.S. Although the majority of our revenue and expenses are transacted in U.S. dollars, portion of our operations are conducted in Euros and to a lesser extent, in other currencies. As such, w have foreign exchange exposure with respect to non-U.S. dollar revenues and expenses as well as cas balances, accounts receivable and accounts payable balances denominated in non-US dollar currencie Our international operations are subject to risks typical of international operations, including, but no limited to, differing economic conditions, changes in political climate, differing tax structures, othe regulations and restrictions, and foreign exchange rate volatility. Future fluctuations in the value of thes currencies may affect the price competitiveness of our products. In addition, because we have a relativel long installation cycle for our systems, we will be subject to risk of currency fluctuations between the tim we execute a purchase order and the time we deliver the system and collect payments under the orde which could adversely affect our operating margins. As of December 31, 2009 we have not hedge exposures in foreign currencies or entered into any other derivative instruments.

For the year ended December 31, 2009, sales denominated in foreign currencies were approximately 28 of total revenue. For the year ended December 31, 2009, our revenue would have decreased b approximately $1.5 million if the U.S. dollar exchange rate used would have strengthened by 10%. For th year ended December 31, 2009, expenses denominated in foreign currencies were approximately 14% o our total expenses. For the year ended December 31, 2009, our operating expenses would have decrease by approximately $0.8 million if the U.S. dollar exchange rate used would have strengthened by 10%. I addition, we have assets and liabilities denominated in foreign currencies. A 10% strengthening of the U.S dollar exchange rate against all currencies with which we have exposure at December 31, 2009 would hav resulted in a $0.3 million decrease in the carrying amounts of those net assets.

Interest Rate Risk

We have exposure to interest rate risk related to our investment portfolio. The primary objective of ou
investment activities is to preserve principal while at the same time maximizing the income we receiv
from our invested cash without significantly increasing the risk of loss. Our interest income is sensitive t
changes in the

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general level of U.S. interest rates, particularly since the majority of our investments are in short-term deb instruments. We invest our excess cash primarily in U.S. government securities and marketable deb securities of financial institutions and corporations with strong credit ratings. These instruments generall have maturities of two years or less when acquired. We do not utilize derivative financial instrument derivative commodity instruments or other market risk sensitive instruments, positions or transaction Accordingly, we believe that while the instruments we hold are subject to changes in the financial standin of the issuer of such securities, we are not subject to any material risks arising from changes in interes rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affec market risk sensitive instruments.

We have exposure to market risk related to any investments we might hold. Market liquidity issues migh make it impossible for the Company to liquidate its holdings or require that the Company sell the securitie at a substantial loss. As of December 31, 2009, the Company did not hold any investments.

We have exposure to interest rate risk related to our borrowings as the interest rates for certain of ou outstanding loans are subject to increase should the interest rate increase above a defined percentage However, because our outstanding debt is subject to minimum interest rates ranging from 5.75% to 7.0% a hypothetical increase in interest rates of 100 basis points would have resulted in no increase in th interest we paid as of December 31, 2009.

Inflation Risk

We do not believe that inflation has had a material adverse impact on our business or operating result during the periods covered by this report.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements

Index To Financial Statements

All other schedules have been omitted because they are not applicable or the required information i shown in the Financial Statements or the Notes thereto.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Stereotaxis, Inc.

We have audited the accompanying balance sheets of Stereotaxis, Inc. (the Company) as of December 3 2009 and 2008, and the related statements of operations, stockholders equity, and cash flows for each the three years in the period ended December 31, 2009. Our audits also included the financial statemer schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility c the Company s management. Our responsibility is to express an opinion on these financial statements a schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversigh Board (United States). Those standards require that we plan and perform the audit to obtain reasonabl assurance about whether the financial statements are free of material misstatement. An audit include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A audit also includes assessing the accounting principles used and significant estimates made b management, as well as evaluating the overall financial statement presentation. We believe that our audi provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, th financial position of Stereotaxis, Inc. at December 31, 2009 and 2008, and the results of its operations an its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S generally accepted accounting principles. Also, in our opinion, the related financial statement schedul when considered in relation to the basic financial statements taken as a whole, presents fairly in a material respects the information set forth herein.

As discussed in Note 2 to the financial statements, on January 1, 2009, the Company changed its metho for accounting for revenue recognition for arrangements with multiple deliverables and its method fo accounting for instruments indexed to an entity s own stock.

We also have audited, in accordance with the standards of the Public Company Accounting Oversigh Board (United States), Stereotaxis, Inc. s internal control over financial reporting as of December 31, 20 based on criteria established in *Internal Control Integrated Framework* issued by the Committee o Sponsoring Organizations of the Treadway Commission, and our report dated March 15, 2010 expresse an unqualified opinion thereon.

/s/ Ernst & Young LL

St. Louis, Missouri

March 15, 2010

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STEREOTAXIS, INC.

BALANCE SHEETS

	December 31, 2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 30,546,550	$ 30,355,657
Accounts receivable, net of allowance of $322,463 and $328,307 in 2009 and 2008, respectively	11,152,648	9,739,008
Current portion of long-term receivables	66,800	197,351
Inventories	4,403,675	8,086,956
Prepaid expenses and other current assets	3,872,535	2,966,510
Total current assets	50,042,208	51,345,482
Property and equipment, net	4,790,310	6,420,600
Intangible assets, net	1,144,445	1,277,778
Long-term receivables	138,441	298,123
Other assets	5,112	98,382
Total assets	$ 56,120,516	$ 59,440,365
Liabilities and stockholders equity		
Current liabilities:		
Current maturities of long-term debt	$ 3,333,333	$ 3,901,491
Accounts payable	3,881,205	4,561,928
Accrued liabilities	8,615,287	9,873,818
Deferred contract revenue	7,191,492	9,676,339
Warrants	4,142,614	
Total current liabilities	27,163,931	28,013,576
Long-term debt, less current maturities	20,346,655	25,271,547
Long-term deferred contract revenue	948,574	1,225,656
Other liabilities	20,013	158,905
Stockholders equity:		
Preferred stock, par value $0.001; 10,000,000 shares authorized at 2009 and 2008, none outstanding at 2009 and 2008		
Common stock, par value $0.001; 100,000,000 shares authorized at 2009 and 2008, 50,208,171 and 42,049,792 shares issued at 2009 and 2008, respectively	50,208	42,050
Additional paid in capital	331,249,918	300,892,957
Treasury stock, 40,151 shares at 2009 and 2008	(205,999)	(205,999)
Accumulated deficit	(323,452,784)	(295,958,327)
Total stockholders equity	7,641,343	4,770,681
Total liabilities and stockholders equity	$ 56,120,516	$ 59,440,365

See accompanying notes.

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STEREOTAXIS, INC.

STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2009	**2008**	**2007**
Revenue:			
Systems	$ 32,661,573	$ 28,375,880	$ 30,118,627
Disposables, service and accessories	18,487,982	11,989,293	9,180,182
Total revenue	51,149,555	40,365,173	39,298,809
Cost of revenue:			
Systems	13,240,430	12,008,090	10,978,108
Disposables, service and accessories	3,781,203	2,169,700	2,497,459
Inventory impairment			1,870,653
Total cost of revenue	17,021,633	14,177,790	15,346,220
Gross margin	34,127,922	26,187,383	23,952,589
Operating expenses:			
Research and development	14,260,854	17,422,828	25,471,809
Sales and marketing	28,694,540	28,660,663	29,021,117
General and administrative	15,010,490	21,121,164	18,701,726
Total operating expenses	57,965,884	67,204,655	73,194,652
Operating loss	(23,837,962)	(41,017,272)	(49,242,063)
Other income	911,977		
Interest income	44,768	194,870	1,471,503
Interest expense	(4,613,240)	(3,063,572)	(350,954)
Net loss	$ (27,494,457)	$ (43,885,974)	$ (48,121,514)
Net loss per common share:			
Basic and diluted	$ (0.63)	$ (1.20)	$ (1.34)
Weighted average shares used in computing net loss per common share:			
Basic and diluted	43,344,324	36,585,086	35,793,973

See accompanying notes.

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STEREOTAXIS, INC.

STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock					Accumulated Other Comprehensive	
	Shares	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Income (Loss)	Total Stockholders Equity
Balance at December 31, 2006	34,755,397	$ 34,755	$ 248,908,918	$ (205,999)	$ (203,950,839)	$ 2,157	$ 44,788,992
Issuance common stock	1,919,000	1,919	20,105,317				20,107,236
Share-based compensation			5,597,800				5,597,800
Issuance of stock under stock purchase plan	62,254	63	502,308				502,371
Exercise of stock warrants	93,050	93	373,381				373,474
Exercise of stock options and stock appreciation rights	210,745	211	946,030				946,241
Grant of restricted shares, net of forfeitures	92,083	92	(92)				
Components of comprehensive loss:							
Net Loss					(48,121,514)		(48,121,514
Unrealized loss on short term investments						(193)	(193
Comprehensive Loss							(48,121,707
Balance at December 31, 2007	37,132,529	$ 37,133	$ 276,433,662	$ (205,999)	$ (252,072,353)	$ 1,964	$ 24,194,407
Issuance of common stock and warrants	4,414,137	4,414	20,563,270				20,567,684
Share-based compensation			2,994,202				2,994,202
Issuance of stock under stock purchase plan	85,525	86	574,954				575,040
Exercise of stock warrants	479		3,741				3,741
Exercise of stock options	48,193	48	323,497				323,545
Grant of restricted	368,929	369	(369)				

shares, net of forfeitures							
Components of comprehensive loss:							
Net Loss					(43,885,974)		(43,885,974
Unrealized loss on short term investments						(1,964)	(1,964
Comprehensive Loss							(43,887,938
Balance at December 31, 2008	42,049,792	$ 42,050	$ 300,892,957	$ (205,999)	$ (295,958,327)	$	$ 4,770,681
Issuance of common stock and warrants	7,475,000	7,475	31,050,602				31,058,077
Share-based compensation	106,756	107	4,229,076				4,229,183
Reclass of warrants to liability (1)			(5,054,591)				(5,054,591
Issuance of stock under stock purchase plan	32,142	33	123,473				123,506
Exercise of stock warrants	620,582	620					620
Exercise of stock options	5,138	5	8,319				8,324
Grant of restricted shares, net of forfeitures	(81,239)	(82)	82				
Components of comprehensive loss:							
Net Loss					(27,494,457)		(27,494,457
Comprehensive Loss							(27,494,457
Balance at December 31, 2009	50,208,171	$ 50,208	$ 331,249,918	$ (205,999)	$ (323,452,784)	$	$ 7,641,343

(1) See Note 9 for additional details.

See accompanying notes.

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STEREOTAXIS, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2009	2008	2007
Cash flows from operating activities			
Net loss	$ (27,494,457)	$ (43,885,974)	$ (48,121,514)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation	2,050,507	2,252,384	1,752,471
Amortization (accretion)	133,333	115,231	(131,820)
Amortization of warrants	2,346,027	1,653,161	
Share-based compensation	4,229,183	2,994,202	5,597,800
Loss on asset disposal	557,152	2,387	9,797
Inventory impairment charge			1,870,653
Asset impairment	338,821	500,000	
Non-cash expense (royalty income), net	(1,983,414)	1,467,245	
Warrant adjustment	(911,977)		
Changes in operating assets and liabilities:			
Accounts receivable	(1,413,640)	3,454,376	1,523,358
Interest receivable on investments		316	164,455
Other receivables	290,233	(86,185)	(245,927)
Inventories	3,851,283	1,877,504	(3,549,288)
Prepaid expenses and other current assets	53,238	532,575	(840,429)
Other assets	93,270	245,939	(522,769)
Accounts payable	(680,723)	(221,498)	1,794,305
Accrued liabilities	(866,678)	(570,745)	1,888,187
Deferred revenue	(2,761,929)	1,184,464	2,833,804
Other	(138,892)	(169,885)	263,423
Net cash used in operating activities	(22,308,663)	(28,654,503)	(35,713,494)
Cash flows from investing activities			
Sale of equipment		2,200	100,640
Purchase of equipment	(1,484,192)	(1,665,808)	(4,744,376)
Proceeds from the maturity/sale of available-for-sale investments		6,650,000	29,050,000
Purchase of available-for-sale investments			(13,810,385)
Net cash provided by (used in) investing activities	(1,484,192)	4,986,392	10,595,879
Cash flows from financing activities			
Proceeds from long-term debt	3,000,000	24,000,000	7,000,000
Payments under long-term debt	(6,901,489)	(6,737,398)	(2,000,000)
Proceeds from issuance of stock and warrants, net of issuance costs	27,885,237	19,738,966	21,929,322
Net cash provided by financing activities	23,983,748	37,001,568	26,929,322
Net increase in cash and cash equivalents	190,893	13,333,457	1,811,707
Cash and cash equivalents at beginning of period	30,355,657	17,022,200	15,210,493
Cash and cash equivalents at end of period	$ 30,546,550	$ 30,355,657	$ 17,022,200
Supplemental disclosures of cash flow information:			

Interest paid	$ 864,279	$ 698,245	$ 166,868

See accompanying notes.

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Notes to Financial Statements

1. Description of Business

Stereotaxis, Inc. (the Company) designs, manufactures, and markets an advanced cardiology instrumer control system for the interventional treatment of arrhythmias and coronary artery disease. The Compan also markets and sells various disposable interventional devices, including catheters, guidewires and othe delivery devices, for use in conjunction with its system. The Company has received regulatory approva for the core components of its system in the U.S., Europe, Canada and various other countries.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all short-term investments purchased with original maturities of three months o less to be cash equivalents. The Company places its cash with high-credit-quality financial institutions an invests primarily in money market accounts. No cash was restricted at December 31, 2009 or 2008.

Investments

In accordance with general accounting principles for accounting for certain investments in debt and equit securities, the Company s investment securities are classified as available-for-sale and are carried at mar value, which approximates cost. Realized gains or losses, calculated based on the specific identificatio method, were not material for the years ended December 31, 2009, 2008 and 2007. Interest and dividend on securities classified as available-for-sale are included in interest income.

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable primarily include amounts due from hospitals and distributors for acquisition o magnetic systems, associated disposable device sales and service contracts. Credit is granted on a limite basis, with balances due generally within 30 days of billing. The provision for bad debts is based upo management s assessment of historical and expected net collections considering business and econon conditions and other collection indicators.

Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable accounts payable and debt. The carrying value of such amounts reported at the applicable balance shee dates approximates fair value. See Note 7 for disclosure of the fair value of debt.

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

The Company s financial assets consist of cash equivalents invested in money market funds in the amou of $27,239,083 and $27,359,488 at December 31, 2009 and 2008, respectively. These assets are classifie as Level 1 as described above and total interest income recorded for these investments was approximatel $38,000 and $123,000 during the years ended December 31, 2009 and 2008, respectively.

The Company s financial liabilities consist of warrants in the amount of $4,142,614 at December 31, 20 These liabilities are classified as Level 3 as described above and are measured using the Black-Schole valuation model. The mark-to-market adjustment recorded in other income for these warrants wa $911,977 during the year

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ended December 31, 2009. There were no purchases, sales, issuances, or settlements of Level investments during the year. These warrants were transferred in to Level 3 on January 1, 2009 based on th adoption of general accounting principles for determining whether an instrument (or embedded feature) indexed to an entity s own stock. See Note 9 for additional details.

Inventory

The Company values its inventory at the lower of cost, as determined using the first-in, first-out (FIFO method, or market. The Company periodically reviews its physical inventory for obsolete items an provides a reserve upon identification of potential obsolete items.

Property and Equipment

Property and equipment consist primarily of computer, office, and research and demonstration equipmen held for lease and leasehold improvements and are stated at cost. Depreciation is calculated using th straight-line method over the estimated useful lives or life of the base lease term, ranging from three to te years.

Long-Lived Assets

If facts and circumstances suggest that a long-lived asset may be impaired, the carrying value is reviewed If this review indicates that the carrying value of the asset will not be recovered, as determined based o projected undiscounted cash flows related to the asset over its remaining life, the carrying value of th asset is reduced to its estimated fair value.

Intangible Assets

Intangible assets consist of purchased technology arising out of collaboration with a strategic partne valued at cost on the acquisition date and amortized over its estimated useful life of 15 years. Accumulate amortization at December 31, 2009 and 2008 is $855,555 and $722,222, respectively. Amortizatio expense in 2009, 2008 and 2007 is $133,333 during each year, as determined under the straight-lin method. The estimated future amortization of intangible assets is $133,333 annually through July 2018.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principle requires management to make estimates and assumptions that affect the reported amounts of assets an liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and th reported amounts of income and loss during the reporting period. Actual results could differ from thos estimates.

Revenue and Costs of Revenue

The Company adopted Accounting Standards Update 2009-13, *Multiple-Deliverable Revenu Arrangements* (ASU 2009-13) in the fourth quarter of 2009, effective as of January 1, 2009. Prior to adoption of this guidance, the Company followed previously issued guidance for general accountin principles for revenue arrangements with multiple deliverables. Under this guidance, we were required t continually evaluate whether we had proper evidence to identify separate units of accounting fo deliverables within certain contractual arrangements with customers. If we were unable to support th determination of vendor-specific objective evidence (VSOE) or third party evidence (TPE) of fair v the undelivered element, we could not recognize revenue for the delivered elements.

ASU 2009-13 permits management to estimate the selling price of undelivered components of a bundle sale for which it is unable to establish VSOE or TPE. This requires management to record revenue fo certain

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elements of a transaction even though it might not have delivered other elements of the transaction, fo which it was unable to meet the requirements for establishing VSOE or TPE. The Company believes tha the new guidance will significantly improve the reporting of these types of transactions to more closel reflect the underlying economic circumstances. This guidance also prohibits the use of the residual metho for allocating revenue to the various elements of a transaction and requires that the revenue be allocate proportionally based on the relative estimated selling prices.

Under our revenue recognition policy before and after the adoption of ASU 2009-13, a portion of revenu for Niobe system sales is recognized upon delivery, provided that title has passed, there are n uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixe and determinable, and collection of the related receivable is reasonably assured. When installation is th responsibility of the customer, revenue from system sales is recognized upon shipment since thes arrangements do not include an installation element or right of return privileges. We may deliver system to a non-hospital site at the customer s request. We evaluate whether delivery has occurred consideri general accounting principles for revenue recognition with respect to bill and hold transactions. Reven recognized for Odyssey systems upon completion of installation. Amounts collected prior to satisfying th above revenue recognition criteria are reflected as deferred revenue. Revenue from services and licens fees, whether sold individually or as a separate unit of accounting in a multi-element arrangement, i deferred and amortized over the service or license fee period, which is typically one year. Revenue fro services is derived primarily from the sale of annual product maintenance plans. We recognize revenu from disposable device sales or accessories upon shipment and establish an appropriate reserve for return The return reserve, which is applicable only to disposable devices, is estimated based on historica experience which is periodically reviewed and updated as necessary. In the past, changes in estimate hav had only a de minimus effect on revenue recognized in the period. We believe that the estimate is no likely to change significantly in the future.

Costs of systems revenue include direct product costs, installation labor and other costs, estimate warranty costs, and initial training and product maintenance costs. These costs are recorded at the time o sale. Costs of disposable revenue include direct product costs and are recorded at the time of sale. Cost o revenue from services and license fees are recorded when incurred. During the 2007 year, the Compan recorded approximately $1.9 million of charges for inventory impairment related to the first generatio Niobe system.

Research and Development Costs

Internal research and development costs are expensed in the period incurred. Amounts receivable fro strategic partners under research reimbursement agreements are recorded as a contra-research an development expense in the period reimbursable costs are incurred. Advance receipts or other unearne reimbursements are included in accrued liabilities on the accompanying balance sheet until earned.

Share-Based Compensation

The Company utilizes the Black-Scholes valuation model to determine the fair value of share-base payments at the date of grant with the following inputs: 1) expected dividend rate of 0%; 2) expecte volatility of 50-65% based on the Company s historical volatility and a review of the volatilities comparable companies; 3) risk-free interest rate based on the Treasury yield on the date of grant and; 4 expected term for grants made subsequent to the revision of general accounting principles for share-base payments on January 1, 2006, generally using the simplified method which results in an expected ter ranging from 3.75 to 6.25 years. The resulting compensation expense is recognized over the requisit service period, generally one to four years. Compensation expense is recognized only for those award expected to vest, with forfeitures estimated based on the Company s historical experience and futu expectations.

Stock options or stock appreciation rights issued to certain non-employees are recorded at their fair valu as determined in accordance with general accounting principles for revenue recognition and accounting fo equity

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instruments that are issued to other than employees for acquiring, or in conjunction with selling, goods o services, and recognized over the service period. Deferred compensation for options granted t non-employees is remeasured on a quarterly basis through the vesting or forfeiture date.

Restricted shares granted to employees are valued at the fair market value at the date of grant. Th Company amortizes the amount to expense over the service period on a straight-line basis for those share with graded vesting. If the shares are subject to performance objectives, the resulting compensatio expense is amortized over the anticipated vesting period and is subject to adjustment based on the actua achievement of objectives.

Shares purchased by employees under the 2004 Employee Stock Purchase Plan were considered to b compensatory and were accounted for in accordance with general accounting principles for share-base payments.

Net Loss per Share

Basic loss per common share is computed by dividing the net loss for the period by the weighted averag number of common shares outstanding during the period. Diluted loss per share is computed by dividin the loss for the period by the weighted average number of common and common equivalent share outstanding during the period. In addition, the application of the two-class method of computing earning per share under general accounting principles for participating securities is not applicable because th Company s unearned restricted shares do not contractually participate in its losses.

The Company has excluded all outstanding options, stock appreciation rights, warrants, shares subject t repurchase and unearned restricted shares from the calculation of diluted loss per common share becaus all such securities are anti-dilutive for all periods presented. As of December 31, 2009, the Company ha 4,675,450 shares of common stock issuable upon the exercise of outstanding options and stoc appreciation rights at a weighted average exercise price of $6.63 per share and 9,623,711 shares o common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price o $4.26 per share.

Income Taxes

In accordance with general accounting principles for income taxes, a deferred income tax asset or liabilit is determined based on the difference between the financial statement and tax basis of assets and liabilitie as measured by the enacted tax rates that will be in effect when these differences reverse. The Compan provides a valuation allowance against net deferred income tax assets unless, based upon availabl evidence, it is more likely than not the deferred income tax assets will be realized.

Product Warranty Provisions

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

The warranty activity for the year ended December 31, 2009 is as follows:

	December 31, 2009
Warranty accrual at December 31, 2008	$ 534,122
Warranty expense incurred	453,138
Payments made	(439,777)

Warranty accrual at December 31, 2009	$ 547,483

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Patent Costs

Costs related to filing and pursuing patent applications are expensed as incurred, as recoverability of suc expenditures is uncertain.

Concentrations of Risk

The majority of the Company s cash, cash equivalents and investments are deposited with one ma financial institution in the U. S. Deposits in this institution exceed the amount of insurance provided o such deposits.

One customer, Siemens AG, Medical Solutions and its affiliated entities, as our distributor, accounted fo $6,771,693, $3,022,007 and $5,611,496, or 13%, 7% and 14% of total net revenue for the years ende December 31, 2009, 2008 and 2007, respectively. No other single customer accounted for more than 10 of total revenue for the year ended December 31, 2009.

Comprehensive Income (Loss)

Comprehensive income (loss) generally represents all changes in stockholders equity except tho resulting from investments by stockholders, and includes the Company s unrealized income (loss) marketable securities. Comprehensive loss for the year ended December 31, 2009, 2008, and 2007 wa $(27,494,457), $(43,887,938), and $(48,121,707), respectively. Accumulated other comprehensive incom (loss) at December 31, 2009 and 2008 was not material.

Reclassifications

Costs of revenue in the prior years financial statements have been reclassified to disclose compone related to systems and disposables, service and accessories to conform to current year presentation with n impact to reported net income.

Recently Adopted Accounting Pronouncements

Effective October 1, 2009, the Company adopted ASU 2009-13. ASU 2009-13 permits management t estimate the selling price of undelivered components of a bundled sale for which it is unable to establis vendor-specific objective evidence (VSOE) or third party evidence (TPE). This requires manage record revenue for certain elements of a transaction even though it might not have delivered other elemen of the transaction, for which it was unable to meet the requirements for establishing VSOE or TPE. Th guidance also prohibits the use of the residual method for allocating revenue to the various elements of transaction and requires that the revenue be allocated proportionally based on the relative estimated sellin prices. The Company adopted this standard in the fourth quarter of 2009, with retrospective application t January 1, 2009.

The Company s adoption of ASU 2009-13 did not have a material impact on any amounts previou reported for the first three quarters of 2009. The fourth quarter of 2009 was the first period during whic we sold a Niobe system with an uninstalled Odyssey Enterprise Cinema system. Due to the fact that w had not established VSOE or TPE for uninstalled Odyssey Enterprise Cinema systems under the previou guidance, we would not have been able to recognize revenue for any portion of these transactions, whic amounted to $2.0 million in revenue and $1.3 million in gross margin. Under the new guidance, we wer able to use management s estimate of selling price to establish new elements, including the Odyss Enterprise Cinema, and recognize revenue for the delivered elements that were included in bundle transactions with these undelivered elements. The Company believes that the new guidance significantl improves the reporting of these types of transactions to more closely reflect the underlying economi circumstances.

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Effective June 30, 2009, the Company adopted new guidance related to general accounting principles fo subsequent events. This guidance modifies the names of the two types of subsequent events either a recognized subsequent events (previously referred to in practice as Type I subsequent events) o non-recognized subsequent events (previously referred to in practice as Type II subsequent events). I addition, this guidance modifies the definition of subsequent events to refer to events or transactions tha occur after the balance sheet date, but before the financial statements are issued (for public entities). Th adoption did not have any impact on the Company s results of operations, financial condition or cash flov

In June 2008, the FASB issued new general accounting principles for determining whether instrument granted in share-based payment transactions are participating securities. This new guidance addresse whether instruments granted in share-based payment awards that entitle their holders to receiv non-forfeitable dividends or dividend equivalents before vesting should be considered participatin securities and need to be included in the earnings allocation in computing EPS under the two-class meth The two-class method of computing EPS is an earnings allocation formula that determines EPS for eac class of common stock and participating security according to dividends declared (or accumulated) an participation rights in undistributed earnings. The new guidance was effective for fiscal years beginnin after December 15, 2008 (January 1, 2009 for the Company) with all prior period EPS data being adjuste retrospectively. This guidance did not have a material impact on the Company s EPS calculation becau the participating security holders do not contractually participate in losses.

In June 2008, the FASB ratified the consensus reached on general accounting principles for determinin whether an instrument (or embedded feature) is indexed to an entity s own stock. This new guidan clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity s o stock, which would qualify as a scope exception under general accounting principles for accounting fo derivative instruments and hedging activities. The new guidance was effective for financial statement issued for fiscal years beginning after December 15, 2008 and resulted in a reclass from equity to liabilitie in the amount of $5.1 million on January 1, 2009. See Note 9 for additional details.

3. Inventory

Inventory consists of the following:

	December 31,	
	2009	2008
Raw materials	$ 1,785,908	$ 1,551,794
Work in process	312,797	480,400
Finished goods	3,117,438	6,638,040
Reserve for obsolescence	(812,468)	(583,278)
Total inventory	$ 4,403,675	$ 8,086,956

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	December 31,	
	2009	2008
Prepaid expenses	$ 733,966	$ 1,239,805
Deferred cost of revenue	960,145	816,096
Other assets	2,178,424	910,609
Total prepaid expenses and other current assets	$ 3,872,535	$ 2,966,510

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Deferred cost of revenue represents the cost of systems for which title has transferred from the Compan but for which revenue has not been recognized.

5. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2009	2008
Equipment	$ 8,541,355	$ 10,504,504
Equipment held for lease	547,416	547,416
Leasehold improvements	2,317,753	1,918,653
	11,406,524	12,970,573
Less: Accumulated depreciation	(6,616,214)	(6,549,973)
Net property and equipment	$ 4,790,310	$ 6,420,600

6. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2009	2008
Accrued salaries, bonus, and benefits	$ 5,160,246	$ 5,215,219
Accrued research and development	140,284	399,405
Accrued legal and other professional fees	539,651	622,862
Other	2,775,106	3,636,332
Total accrued liabilities	$ 8,615,287	$ 9,873,818

7. Long-Term Debt and Credit Facilities

Long-term debt consists of the following:

	December 31, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Revolving credit agreement, due March 2011	$ 10,000,000	$ 10,261,547	$ 13,234,824	$ 13,570,334
June 2007 term note, due June 2010	333,334	334,243	1,000,000	1,006,173
Biosense Webster Advance	13,346,654	13,683,595	14,938,214	15,455,766
Total debt	23,679,988	24,279,385	29,173,038	30,032,273
Less current maturities	(3,333,333)	(3,359,455)	(3,901,491)	(3,986,400)
Total long term debt	$ 20,346,655	$ 20,919,930	$ 25,271,547	$ 26,045,873

Contractual principal maturities of debt at December 31, 2009 are as follows:

2010	3,333,333
2011	20,346,655
	$ 23,679,988

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Revolving line of credit

In February 2008, the Company entered into a Note and Warrant Purchase Agreement with stockholder who are affiliates of two members of its board of directors (Lenders) and considered to be related par pursuant to which the Lenders agreed to loan the Company up to an aggregate of $20 million. Th Company could draw down these funds at its election. These funds were unsecured and subordinated t any bank debt, and if drawn, were due at a maturity date in February 2009. The Lenders also agreed t guarantee advances made to the Company pursuant to the credit agreement with the Company s prima lending bank. Warrants to purchase 572,246 shares of the Company s common stock at an exercise price $6.99 were issued to the Lenders in exchange for the financing commitment. The warrants wer exercisable immediately upon grant and expire five years from the date of grant. See Note 9 describing th December 2008 equity funding transaction. The Company recorded the fair value of the warrants in th amount of $1.7 million to be amortized to interest expense over the one year commitment period throug February 2009. Interest expense related to these warrants was $0.1 million and $1.6 million for the year ended December 31, 2009 and 2008, respectively.

In March 2008, the Company and its primary lending bank amended the revolving line of credit b increasing the line to $30 million subject to a borrowing base of qualifying accounts receivable an inventory, with up to $10 million available under the line supported by the guarantees described above.

In November 2008, the Lenders committed to extend their February 2008 agreement to loan the Compan an aggregate of $20 million on an unsecured basis. As amended, the commitment would expire on th earlier of March 31, 2010 or the date the Company received at least $20 million of third party, non-ban financing. This facility could also be used by the Company to guarantee its loan commitments to th Company s primary bank lender, through the same extended term. In February 2009, the Compa exercised its option to extend the term of this agreement through March 2010. In conjunction with thi agreement, the Company issued warrants to purchase 1,582,280 shares of common stock at $3.16 pe share. During 2009, the Company expensed $2.1 million related to these warrants.

In December 2008, the Company completed a registered direct offering in which the Lenders purchase $10 million of the Company s common stock. In connection with and conditioned upon the closing of registered direct offerings, the Company agreed that the loan obligation would decrease from an aggregat of $20 million to $10 million.

In March 2009, the Company and its primary lending bank entered into an agreement to amend th revolving line of credit to change the total availability under the line to $25 million, to extend the term o the agreement to March 31, 2010, to modify the tangible net worth requirements, and to provide fo additional borrowing capacity as it relates to advances against accounts receivable from non-U.S customers.

In October 2009, the Company received from the Lenders an extension of their commitment to provid $10 million in either direct loans to the Company or loan guarantees to the Company s primary bank len through the earlier of March 31, 2011 or the date the Company receives $30 million of third party non-bank financing, coincidental with the proposed maturity of the bank line of credit, as amended. Th Company granted to the Lenders warrants to purchase 664,064 shares of common stock in exchange fo their extension. The warrants are exercisable at $4.25 per share, beginning on March 1, 2010 and expirin on February 28, 2015. The fair value of these warrants of $1,232,503, calculated using the Black Schole method, will be deferred and amortized to interest expense ratably. As the previous guarantee was n longer in effect, the Company expensed, in 2009, the entire balance on the warrants issued to the Lender in February 2009.

In December 2009, the Company amended its agreement with its primary lender to extend the maturity o the current working capital line of credit from March 31, 2010 to March 31, 2011 and to increase the tota availability under the line from $25 million to $30 million, retaining the $10 million sublimit fo borrowings supported by guarantees from the Lenders. Under the revised facility the Company is require to maintain a

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minimum tangible net worth as defined in the agreement. Interest on the facility accrues at the rat prime plus 0.5% subject to a floor of 6% for the amount under guarantee and prime plus 1.75% subject to floor of 7% for the remaining amounts.

As of December 31, 2009, the Company had $10 million outstanding under the revolving line of credit an had an unused line of approximately $20 million with current borrowing capacity of $15.9 million including amounts already drawn. As such, the Company had the ability to borrow an additional $5. million under the revolving line of credit at December 31, 2009. As of December 31, 2009, the Compan was in compliance with all covenants of the bank loan agreement. As of December 31, 2009 the Compan had no remaining availability on its Lender loan and guarantee.

Term note

In June 2007, the Company entered into a term note due in June 2010 with its primary lender fo $2,000,000. The Company is required to make equal payments of principal and interest, at prime plus 1% through June 2010.

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

Biosense Webster Advance

In July 2008, the Company and Biosense Webster entered into an amendment to their existing agreement relating to the development and sale of catheters. Pursuant to the amendment, Biosense Webster agreed t pay to the Company $10.0 million as an advance on royalty amounts that were owed at the time th amendment was executed or would be owed in the future by Biosense Webster to the Company pursuant t the royalty provisions of one of the existing agreements. The Company and Biosense Webster also agree that an aggregate of up to $8.0 million of certain agreed upon research and development expenses tha were owed at the time the amendment was executed or may be owed in the future by the Company t Biosense Webster pursuant to the existing agreement would be deferred and will be due, together with an unrecouped portion of the $10.0 million royalty advance, on the Final Payment Date (as defined below Interest on the outstanding and unrecouped amounts of the royalty advance and deferred research an development expenses will accrue at an interest rate of the prime rate plus 0.75%. Outstanding royalt advances and deferred research and development expenses and accrued interest thereon will be recoupe by Biosense Webster by deductions from royalty amounts otherwise owed to the Company from Biosens Webster pursuant to the existing agreement. The Company has the right to prepay any amounts du pursuant to the Amendment at any time without penalty. As of December 31, 2009, approximately $18. million had been advanced by Biosense Webster to the Company pursuant to the amendment. As o December 31, 2009, $5.9 million of royalty payments owed by Biosense had been used to reduce th advances and the remaining approximately $13.3 million of amounts owed to Biosense Webster has bee classified as debt in the accompanying balance sheet including $3.0 million as short-term debt and $10. million as long-term debt. The Company recorded research and development expenses of $1.7 million $3.4 million, and $4.6 million and disposables, service and accessories revenue of $3.3 million, $2. million, and $1.6 million for the years ended December 31, 2009, 2008, and 2007, respectively, related t this agreement.

All funds owed by the Company to Biosense Webster must be repaid on the sooner of December 31, 201 or the date of an Accelerating Recoupment Event as defined below (the Final Payment Dat Commencing on May 15, 2010 the Company is required to make quarterly payments (the Supplemen Payments) to Biosense Webster equal to the difference between the aggregate royalty payments recoup by Biosense Webster from the Company (other than royalty amounts attributable to Biosense Webster sales of irrigated catheters) in such quarter and $1 million, until the earlier of (1) the date all funds owe by the Company to Biosense Webster

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pursuant to the Amendment are fully repaid or (2) the Final Payment Date. An Accelerating Recoupm Event means any of the following: (i) the closing of any equity-based registered public financi transaction or in the event of convertible debt, the conversion of such debt into equity which raises at lea $50 million for the Company; (ii) the failure of the Company to make any Supplemental Payment; or (iii) change of control of the Company (as defined in the amendment).

8. Lease Obligations

The Company leases its facilities under operating leases. For the years ended December 31, 2009, 2008 and 2007 rent expense was $1,727,375, $1,559,584, and $1,195,617 respectively.

In January 2006, the Company moved its primary operations into new facilities. The facility is subject to lease which expires in 2018. Under the terms of the lease, the Company has options to renew for up t three additional years. The lease contains an escalating rent provision which the Company ha straight-lined over the term of the lease.

The future minimum lease payments under non-cancelable leases as of December 31, 2009 are as follows:

Year	Operating Lease
2010	$ 1,666,881
2011	1,518,175
2012	1,524,133
2013	1,524,133
2014	1,565,876
2015 and Beyond	7,622,107
Total minimum lease payments	$ 15,421,305

9. Stockholders Equity

Public Offerings of Common Stock

In August 2006, the Company filed a universal shelf registration statement for the issuance and sale fro time to time to the public of up to $75 million in securities, including debt, preferred stock, common stoc and warrants. The shelf registration was declared effective by the SEC in September 2006. In March 200 the Company completed an offering of 1,919,000 shares of its common stock at $10.50 per share pursua to the shelf registration. In conjunction with this transaction, the Company received approximately $20. million in net proceeds after deducting offering expenses.

In December 2008, the Company completed a registered direct offering in which it issued and sol 2,389,877 units (the Units) at the negotiated price of $4.18 per Unit, with each Unit consisting of (i) share of the Company s common stock (Common Stock), (ii) one warrant to purchase 0.75 sha Common Stock at an exercise price of $5.11 per share (the Series A Warrant), (iii) one six-month wa to purchase 0.90 shares of Common Stock at an exercise price of $4.65 per share (the Series B Warra for an aggregate of up to 2,148,739 shares of Common Stock, and (iv) two warrants to purchase 0.28 shares of Common Stock at an exercise price of $0.001 per share (the Series C and D Warrants), fo aggregate of up to 682,824 shares of Common Stock. The ability of the Investors to exercise the Series and D Warrants was conditioned upon the trading price of Common Stock during certain periods prior t May 30, 2009, as described further below. The Series B, C and D Warrants all expired prior to June 30 2009 and represented the right to acquire in the aggregate up to 2,831,563 shares of Common Stock. Th Series A Warrants, which were exercisable on or after the date immediately following the six mont anniversary of their issuance (the Initial Exercisability Date) and had a five year term from the In Exercisability Date, represented the right to acquire an aggregate of up to

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1,792,408 shares of Common Stock. The Series A Warrants have a provision for full ratchet adjustment o the exercise price for the first two years following the closing, and a provision for weighted averag adjustment thereafter, provided that, in any event upon three successive quarters of positive free cash flo (defined as cash flow from operations less non-acquisition related capital expenditures), the full ratche anti-dilution protection will no longer apply and weighted average anti-dilution will apply thereafter. Th exercise price adjustment provisions included in the Series A Warrant only reduce the exercise price, an will not result in any increase in the number of Series A Warrants or shares of Common Stock underlyin the Series A Warrants. As discussed below, these provisions were triggered in February 2009. Unde certain conditions, holders of Series C Warrants were entitled to purchase up to 341,412 shares o Common Stock until ten trading days after the two month anniversary of the issuance date of suc warrants and holders of Series D Warrants were entitled to purchase up to 341,412 shares of Commo Stock until ten trading days after the five month anniversary of the issuance date of such warrants. Th ability of the holders to exercise the Series C Warrants was conditioned on the simple average of the dail volume weighted average price of the Common Stock for the 30 trading days prior to the two mont anniversary of closing, and the ability of the holders to exercise the Series D Warrants was conditioned o the simple average of the daily volume weighted average price of the Company s Common Stock for the trading days prior to the five month anniversary of closing. If either such simple average was betwee $4.18 and $3.25, a portion of the Series C and D Warrants would be exercisable; if each such simpl average was below $3.25, all of the Series C and D Warrants would be exercisable. The investors in th transaction became entitled to exercise and did exercise Series C and D Warrants to purchase 341,412 an 279,170 shares of common stock in March 2009 and June 2009, respectively.

As described above, this offering contained a provision that required a reduction of the exercise price fo Series A Warrants if certain equity events occurred. Such an event occurred in February 2009 and as result, the exercise price for the Series A Warrants was reduced to $3.16 per share. Under the provisions o general accounting principles for hedging and new guidance for determining whether an instrument (o embedded feature) is indexed to an entity s own stock, such a reset provision no longer meets t exemptions for equity classification and as such, the Company accounts for these warrants as derivativ instruments. The calculated fair value of the warrants is classified as a liability and is periodicall remeasured with any changes in value recognized in Other income (expense) in the Statemen Operations. This new guidance became effective for the Company as of January 1, 2009. Accordingly, th fair value of the warrants of $5.1 million was reclassified from stockholder s equity into current liabilit at that date. The Company determined that no change in fair value had occurred between the date o closing and December 31, 2008 and as such, the Company did not record a cumulative effect for th change in accounting principal upon adoption of the new guidance. See Note 2 for fair value as o December 31, 2009.

In addition, concurrently with the offering discussed above, the Company completed a second registere direct offering for an aggregate of 2,024,260 shares of Common Stock and warrants to purchase up t 4,859,504 shares of Common Stock to the Lenders, for a purchase price of $4.94 per unit (representing th closing bid price of the Common Stock on the trading day preceding the execution of the agreement, plu an additional $0.125 per warrant share underlying the warrant). The warrants are exercisable at $4.64 pe share, are exercisable on or after the date immediately following the six month anniversary of the issuance and have a five year term from that initial exercisability date. In conjunction with the tw concurrent offerings, the Company received approximately $18.8 million net of offering expenses.

In August 2009 we filed a universal shelf registration statement for the issuance and sale from time to tim to the public of up to $75 million in securities, including debt, preferred stock, common stock, an warrants. The registration statement was declared effective by the SEC in September 2009.

In October 2009, we completed an offering of 7,475,000 shares of our common stock at $4.00 per share receiving approximately $27.8 million in net proceeds.

The holders of common stock are entitled one vote for each share held and to receive dividends whenev funds are legally available and when declared by the Board of Directors subject to the prior rights o holders of

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all classes of stock having priority rights as dividends and the conditions of the our Revolving Cred
Agreement. No dividends have been declared or paid as of December 31, 2009.

The Company has reserved shares of common stock for the exercise of warrants, the issuance of option
granted under the Company s stock option plan and its stock purchase plan as follows:

	December 31,	
	2009	2008
Warrants	9,623,711	10,413,071
Stock award plans	5,380,371	5,411,026
Employee Stock Purchase Plan	243,398	25,540
	15,247,480	15,849,637

Stock Award Plans

The Company has various stock plans that permit the Company to provide incentives to employees an
directors of the Company in the form of equity compensation. In 1994, the Board of Directors adopted th
1994 Stock Option Plan. In 2002, the Board of Directors adopted a stock incentive plan (the 2002 Stoc
Incentive Plan) and a non-employee directors stock plan (2002 Director Plan). Each of these plans w
subsequently approved by the Company s stockholders. At December 31, 2009 and 2008, the Board
Directors has reserved a total of 5,380,371 and 5,411,026, shares respectively, of the Company s comm
stock to provide for current and future grants under the 2002 Stock Incentive Plan and the 2002 Directo
Plan and for all current grants under the 1994 Stock Option Plan.

The 2002 Stock Incentive Plan allows for the grant of incentive stock options, non-qualified stock option
stock appreciation rights, restricted shares and restricted share units to employees, directors, an
consultants. Options granted under the 2002 Stock Incentive Plan expire no later than ten years from th
date of grant. The exercise price of each incentive stock option shall not be less than 100% of the fair valu
of the stock subject to the option on the date the option is granted. The vesting provisions of individua
options may vary, but incentive stock options generally vest 25% on the first anniversary of each grant an
1/48 per month over the next three years. Stock appreciation rights are rights to acquire a calculate
number of shares of the Company s common stock upon exercise of the rights. The number of shares to
issued is calculated as the difference between the exercise price of the right and the aggregate market valu
of the underlying shares on the exercise date divided by the market value as of the exercise date. Stoc
appreciation rights granted under the 2002 Stock Incentive Plan generally vest 25% on the first anniversar
of such grant and 1/48 per month over the next three years and expire no later than five years from the dat
of grant. The Company generally issues new shares upon the exercise of stock options and stoc
appreciation rights.

Restricted share grants under the 2002 Stock Incentive Plan are either time-based or performance-based
Time-based restricted shares generally vest 25% on each anniversary of such grant. Performance-base
restricted shares vest upon the achievement of performance objectives which are determined by th
Company s Board of Directors.

The 2002 Director Plan allows for the grant of non-qualified stock options to the Company s non-employ
directors. Options granted under the 2002 Director Plan expire no later than ten years from the date o
grant. The exercise price of options under the 2002 Director Plan shall not be less than 100% of the fa
value of the stock subject to the option on the date the option is granted. Initial grants of options to ne
directors generally vest over a two year period. Annual grants to directors generally vest upon the earlie
of one year or the next stockholder meeting.

During the third quarter of 2009, the Company allowed certain option holders to participate in a one-tim
stock option exchange program. Participants in the program were allowed to cancel certain stock option

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exchange for the grant of a lesser amount of stock options with lower exercise prices. The exchange ratio used resulted in a fair value of the replacement options to be granted that was approximately equal to th fair value of the options that were surrendered, and thus no incremental expense was recognized by th Company in conjunction with this option exchange. Of the 975,121 options eligible under the program 407,832 options were cancelled by the Company in exchange for the granting of 149,976 replacemen options. This exchange program was approved by our stockholders on June 10, 2009.

A summary of the options and stock appreciation rights activity for the year ended December 31, 2009 as follows:

	Number of Options/SARS	Range of Exercise Price	Weighted Average Exercise Pri per Share
Outstanding, December 31, 2008	4,480,683	$ 0.25-$14.84	$ 7.5
Granted	1,093,580	$ 3.38-$4.50	$ 4.0
Exercised	(5,138)	$ 1.62	$ 1.6
Forfeited	(893,675)	$ 0.25-$14.84	$ 7.9
Outstanding, December 31, 2009	4,675,450	$ 0.78-$14.84	$ 6.6

As of December 31, 2009 the weighted average remaining contractual life of the options and stoc appreciation rights outstanding was 3.4 years. Of the 4,675,450 options and stock appreciation rights tha were outstanding as of December 31, 2009, 3,054,663 were vested and exercisable with a weighte average exercise price of $7.43 per share and a weighted average remaining term of 2.8 years.

A summary of the options and stock appreciation rights outstanding by range of exercise price is a follows:

	Year Ended December 31, 2009				
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Options Currently Exercisable	Weighte Average Exe Price Pe Share
$0.78 - $5.94	2,446,036	4.1 years	$ 4.61	1,183,930	$ 5.0
$6.77 - $9.90	1,332,573	2.7 years	7.49	1,106,461	7.6
$10.06 - $14.84	896,841	2.4 years	10.86	764,272	10.8
	4,675,450	3.4 years	$ 6.63	3,054,663	$ 7.4

The intrinsic value of options and stock appreciation rights is calculated as the difference between th exercise price of the underlying awards and the quoted price of the Company s common stock for 306,121 options and stock appreciation rights that were in-the-money at December 31, 2009. The intrinsi value of the options and stock appreciation rights outstanding at December 31, 2009 was approximatel $0.5 million based on a closing share price of $3.93 on December 31, 2009. The intrinsic value of full vested options and stock appreciation rights outstanding at December 31, 2009 was approximately $0. million based on a closing price of $3.93 on December 31, 2009. During the year ended December 3 2009, the aggregate intrinsic value of options and stock appreciation rights exercised under the Company stock option plans was less than $0.1 million. The weighted average grant date fair value of options an stock appreciation rights granted during the year ended December 31, 2009 was $2.00 per share.

During the years ended December 31, 2009, 2008 and 2007, the Company realized less than $0.1 millio $0.3 million and $1.0 million, respectively, from the exercise of stock options and stock appreciatio rights.

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A summary of the restricted share grant activity for the year ended December 31, 2009 is as follows:

	Number of Shares	Weighted Avera Grant Date Fa Value per Shar
Outstanding, December 31, 2008	1,021,718	$ 6.8
Granted	41,800	$ 4.0
Vested	(81,541)	$ 8.2
Forfeited	(123,039)	$ 6.1
Outstanding, December 31, 2009	858,938	$ 5.6

A summary of the restricted stock outstanding as of December 31, 2009 is as follows:

	Number of Shares
Time based restricted shares	323,222
Performance based restricted shares	535,716
Outstanding, December 31, 2009	858,938

The intrinsic value of restricted shares outstanding at December 31, 2009 was approximately $3.4 millio based on a closing share price of $3.93 as of December 31, 2009. During the year ended December 3 2009, the aggregate intrinsic value of restricted shares vested was approximately $313,000 determined a the date of vesting.

During the years ended December 31, 2009 and December 31, 2008, the Company determined that it wa not probable that the performance conditions related to certain of its outstanding restricted share award would be achieved and accordingly, recorded approximately $(0.5) million and $(3.8) million respectively, as a cumulative catch-up adjustment resulting in a reduction of share based compensation During the year ended December 31, 2008, the Company also expensed approximately $1.1 million relate to modifications of exercise provision of certain outstanding equity awards and to vesting and exercis provisions in conjunction with the retirement of its CEO.

As of December 31, 2009, the total compensation cost related to options, stock appreciation rights an non-vested stock granted to employees under the Company s stock award plans but not yet recognized w approximately $5.9 million, net of estimated forfeitures of approximately $0.8 million. This cost will b amortized over a period of up to four years on a straight-line basis over the underlying estimated servic periods and will be adjusted for subsequent changes in estimated forfeitures.

2009 Employee Stock Purchase Plan

In 2009, the Company adopted its 2009 Employee Stock Purchase Plan and reserved 250,000 shares o common stock for issuance pursuant to the plan. The Company offered employees the opportunity t participate in the plan beginning July 1, 2009 with an initial purchase date of September 30, 2009. Eligibl employees have the opportunity to participate in a new purchase period every 3 months. Under the term of the plan, employees can purchase up to 15% of their compensation of the Company s common sto subject to an annual maximum of $25,000, at 95% of the fair market value of the stock at the end of th purchase period, subject to certain plan limitations. As of December 31, 2009, a total of 6,602 shares ha been purchased under this plan. As of December 31, 2009 there were 243,398 remaining shares availabl for issuance under the Employee Stock Purchase Plan.

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2004 Employee Stock Purchase Plan

Upon the effectiveness of the initial public offering in August 2004, the Company adopted its 200 Employee Stock Purchase Plan and reserved 277,777 shares of common stock for issuance pursuant to th plan. The Company offered employees the opportunity to participate in the plan beginning January 1, 200 with an initial purchase date of June 30, 2005. Eligible employees had the opportunity to participate in new purchase period every 6 months. Under the terms of the plan, employees could purchase up t $12,500 of the Company s common stock at 85% of the fair market value of the stock at the beginning the end of the purchase period, subject to certain plan limitations. As of December 31, 2009, 2008, an 2007, a total of 277,777, 252,237, and 166,712 shares, respectively, had been purchased under this plan.

Warrants

Prior to its public offering in 2004, the Company issued warrants to purchase 446,063 shares of commo stock at $7.81 exercisable through December 2007 and warrants to purchase 298,936 shares of commo stock at $10.55 per share exercisable through February 2009 in connection with a corresponding issuanc of convertible preferred stock.

During 2005, the Company issued warrants to purchase 306,418 shares of common stock at $6.53 i conjunction with a commitment for unsecured borrowing capacity from the Lenders. Such warrants ar exercisable through November 2010. In February 2008, the Company issued warrants to the Lenders t purchase 572,246 shares of common stock at $6.99 per share exercisable through February 2013 i conjunction with a $20 million loan commitment as described in Note 7. In February 2009, the Compan exercised its option to extend the terms of its guarantee with the same stockholders and issued warrants t the Lenders to purchase 1,582,280 shares of common stock at $3.16 per share exercisable throug February 2014 as described in Note 7.

In December 2008, the Company issued warrants associated with two direct offerings as discussed abov in Public Offerings of Common Stock.

In October 2009, the Company issued warrants to purchase 664,064 shares of common stock i conjunction with an extension of the commitment for unsecured borrowing capacity from the Lenders a described in Note 7.

During 2009, 2008, and 2007, warrants for 620,582, 479 and 147,619 shares, respectively, were exercise Certain of these shares were exercised under the cashless exercise provision of the warrant agreements fo a net issuance of 620,582, 479, and 93,050 shares of common stock during 2009, 2008, and 2007 respectively.

10. Income Taxes

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2009	2008	2007
Deferred:			
Federal	$ 9,850,636	$ 13,322,273	$ 11,396,216
State and local	1,299,941	781,188	(2,378,549)
	11,150,577	14,103,461	9,017,667
Valuation allowance	(11,150,577)	(14,103,461)	(9,017,667)
	$	$	$

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The provision for income taxes varies from the amount determined by applying the U.S. federal statutor rate to income before income taxes as a result of the following:

	Year Ended December 31,		
	2009	2008	2007
U.S. statutory income tax rate	34.0%	34.0%	34.0%
State and local taxes, net of federal tax benefit	4.4%	1.8%	(4.9)%
Permanent differences between book and tax and other	1.5%	(3.7)%	(10.4)%
Valuation allowance	(39.9)%	(32.1)%	(18.7)%
Effective income tax rate	0.0%	0.0%	0.0%

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely tha not that some portion or all of the deferred tax assets will not be realized. The ultimate realization o deferred tax assets is dependent upon the generation of future taxable income during the periods in whic those temporary differences become deductible. The Company considers projected future taxable incom and tax planning strategies in making this assessment. Based upon the level of historical taxable losse and projections for future periods over which the deferred tax assets are deductible, the Compan determined that a 100% valuation allowance of deferred tax assets was appropriate. The valuatio allowance for deferred tax assets includes amounts for which subsequently recognized tax benefits will b applied directly to contributed capital.

The components of the deferred tax asset are as follows:

	December 31,	
	2009	2008
Current accruals	$ 1,933,934	$ 2,428,663
Depreciation and amortization	2,120,283	2,099,867
Deferred compensation	3,946,580	2,021,670
Net operating loss carryovers	105,266,308	96,004,376
Deferred tax assets	113,267,105	102,554,576
Valuation allowance	(113,267,105)	(102,554,576)
Net deferred tax assets	$	$

As of December 31, 2009, the Company has federal net operating loss carryforwards of approximatel $290.8 million. The net operating loss carryforwards will expire at various dates beginning in 201 approximately $4.0 million will expire between 2010 and 2012 and approximately $286.8 million wi expire between 2018 and 2029, if not utilized. As of December 31, 2009, the Company has state ne operating loss carryforwards of approximately $6.4 million, which will expire at various dates betwee 2010 and 2029, if not utilized.

The Company files income tax returns in the U.S. federal jurisdiction and various state and loca jurisdictions. As the Company has a federal Net Operating Loss carryforward from the year ende December 31, 1994 forward, all tax years from 1994 forward are subject to examination. As states hav varying carryforward periods, and the Company has recently entered into additional states, the states ar generally subject to examination for the previous 10 years or less.

The Company recognizes interest accrued, net of tax and penalties, related to unrecognized tax benefits a components of income tax provision as applicable. As of December 31, 2009, accrued interest an penalties were not material.

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11. Net Loss per Share

The following is a reconciliation of the numerator (net loss) and the denominator (number of shares) use in the basic and diluted earnings per share calculations:

	Year Ended December 31,		
	2009	2008	2007
Basic and diluted:			
Net loss	$ (27,494,457)	$ (43,885,974)	$ (48,121,514)
Weighted average common shares outstanding	43,344,324	36,585,086	35,793,973
Net loss per share	$ (0.63)	$ (1.20)	$ (1.34)

The following table sets forth the number of common shares that were excluded from the computation o diluted earnings per share because their inclusion would have been anti-dilutive as follows:

	December 31,		
	2009	2008	2007
Shares outstanding			
Restricted shares	858,938	1,021,718	675,078
Shares issuable upon exercise of:			
Options to purchase common stock	4,675,450	4,480,683	3,324,509
Warrants	9,623,711	10,413,071	357,350
	15,158,099	15,915,472	4,356,937

12. Employee Benefit Plan

Beginning in 2002, the Company offered employees the opportunity to participate in a 401(k) plan. Th Company matches employee contributions dollar for dollar up to 3% of the employee s salary during employee s period of participation. For the years ended December 31, 2009, 2008 and 2007, the Compa expensed $540,168, $621,389 and $605,063, respectively, related to the plan.

13. Commitments and Contingencies

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

The Company has entered into letters of credit to support certain commitments in the aggregate amount o $0.5 million. These letters of credit expire in March 2010, June 2010 and February 2011.

14. Segment Information

The Company considers reporting segments in accordance with general accounting principles fo disclosures about segments of an enterprise and related information. The Company s system and disposa devices are developed and marketed to a broad base of hospitals in the United States and internationally The Company considers all such sales to be part of a single operating segment.

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Geographic revenue is as follows:

	Year Ended December 31,		
	2009	2008	2007
United States	$ 22,309,477	$ 29,052,328	$ 25,930,305
International	28,840,078	11,312,845	13,368,504
Total	$ 51,149,555	$ 40,365,173	$ 39,298,809

All of the Company s long-lived assets are located in the United States.

15. Quarterly Data (Unaudited)

The following tabulations reflect the unaudited quarterly results of operations for the years ende December 31, 2009 and 2008:

	Net Sales	Gross Profit	Net Loss	Basic and Diluted Loss Per Share
2009				
First quarter	$ 11,133,134	$ 7,672,452	$ (7,530,087)	$ (0.18)
Second quarter	12,644,337	7,978,452	(7,439,777)	(0.18)
Third quarter	13,290,693	9,005,112	(5,813,743)	(0.14)
Fourth quarter	14,081,391	9,471,906	(6,710,850)	(0.14)
2008				
First quarter	$ 7,028,451	$ 4,602,389	$ (13,531,166)	$ (0.37)
Second quarter	10,658,592	6,475,955	(12,789,661)	(0.35)
Third quarter	10,551,649	6,910,101	(10,073,125)	(0.28)
Fourth quarter	12,126,481	8,198,938	(7,492,022)	(0.20)

16. Subsequent Events

The Company noted that there were no subsequent events after the balance sheet date of December 3 2009 through the filing of this report with the Securities and Exchange Commission.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Report on Internal Control Over Financial Reporting

As of December 31, 2009, the Company s management, with the participation of the Company s C Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company s disclos controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under th Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on such evaluation Company s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of su

period, the Company s disclosure controls and procedures were effective.

The Company s management is responsible for establishing and maintaining adequate internal control o financial reporting as defined in Rules 13a-15(f) and 15(d)-15(f) promulgated under the Exchange Ac The

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Company s internal control over financial reporting is designed to provide reasonable assurance regard the reliability of financial reporting and the preparation of financial statements for external purposes i accordance with generally accepted accounting principles in the United States of America. The Company management assessed the effectiveness of our internal control over financial reporting as of December 3 2009. In making the assessment, management used the criteria set forth by the Committee of Sponsorin Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based our assessment, our management has concluded that our internal control over financial reporting i effective as of December 31, 2009.

A control system, no matter how well conceived or operated, can provide only reasonable, not absolut assurance that the objectives of the control system are met. Further, the design of a control system mu reflect the fact that there are resource constraints, and the benefits of controls must be considered relativ to their costs. Because of the inherent limitations in all control systems, no evaluation of controls ca provide absolute assurance that all control issues and instances of fraud, if any, within the Company hav been detected. These inherent limitations include the realities that judgments in decision-making can b faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can b circumvented by the individual acts of some persons, by collusion of two or more people, or b management override of the controls. The design of any system of controls is based in part upon certai assumptions about the likelihood of future events, and there can be no assurance that any design wi succeed in achieving its stated goals under all potential future conditions; over time, controls may becom inadequate because of changes in conditions, or the degree of compliance with the policies or procedure may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements du to error or fraud may occur and not be detected.

The Company s independent registered public accounting firm, Ernst & Young LLP, has issued an au report on the effectiveness of our internal control over financial reporting, which can be found below.

Based on the evaluation of internal control over financial reporting, the Chief Executive Officer and Chie Financial Officer have concluded that there have been no changes in the Company s internal controls o financial reporting during the period that is covered by this report that has materially affected or i reasonably likely to materially affect, the Company s internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Stereotaxis, Inc.

We have audited Stereotaxis, Inc. s internal control over financial reporting as of December 31, 20
based on criteria established in *Internal Control Integrated Framework* issued by the Committee o
Sponsoring Organizations of the Treadway Commission (the COSO criteria). Stereotaxis, Inc.
management is responsible for maintaining effective internal control over financial reporting and for i
assessment of the effectiveness of internal control over financial reporting included in the accompanyin
Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on th
Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversigh
Board (United States). Those standards require that we plan and perform the audit to obtain reasonabl
assurance about whether effective internal control over financial reporting was maintained in all materia
respects. Our audit included obtaining an understanding of internal control over financial reporting
assessing the risk that a material weakness exists, testing and evaluating the design and operatin
effectiveness of internal control based on the assessed risk, and performing such other procedures as w
considered necessary in the circumstances. We believe that our audit provides a reasonable basis for ou
opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assuran
regarding the reliability of financial reporting and the preparation of financial statements for externa
purposes in accordance with generally accepted accounting principles. A company s internal control o
financial reporting includes those policies and procedures that (1) pertain to the maintenance of record
that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of th
company; (2) provide reasonable assurance that transactions are recorded as necessary to perm
preparation of financial statements in accordance with generally accepted accounting principles, and tha
receipts and expenditures of the company are being made only in accordance with authorizations o
management and directors of the company; and (3) provide reasonable assurance regarding prevention o
timely detection of unauthorized acquisition, use or disposition of the company s assets that could hav
material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detec
misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the ris
that controls may become inadequate because of changes in conditions, or that the degree of compliance
with the policies or procedures may deteriorate.

In our opinion, Stereotaxis, Inc. maintained, in all material respects, effective internal control ove
financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversigh
Board (United States), the balance sheets of Stereotaxis, Inc. as of December 31, 2009 and 2008, and th
related statements of operations, stockholders equity, and cash flows for each of the three years in t
period ended December 31, 2009, of Stereotaxis, Inc., and our report dated March 15, 2010 expressed a
unqualified opinion thereon.

/s/ Ernst & Young LL

St. Louis, Missouri

March 15, 2010

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ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Report on Form 10-K since we intend to fil
our definitive Proxy Statement for our next Annual Meeting of Stockholders, pursuant to Regulation 14A
of the Securities Exchange Act of 1934, as amended (the Proxy Statement), no later than April 30, 2
and certain information to be included in the Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item concerning our executive officers and directors is incorporated b
reference to the information set forth in the section entitled Directors and Executive Officers in our P
Statement. Information regarding Section 16 reporting compliance is incorporated by reference to th
information set forth in the section entitled Section 16(a) Beneficial Ownership Reporting Compliance
our Proxy Statement.

Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our directors, officer
and employees effective August 1, 2004 as amended from time to time. Stockholders may request a fre
copy of our Code of Business Conduct and Ethics from our Chief Financial Officer as follows:

Stereotaxis, Inc.

Attention: Daniel J. Johnston

4320 Forest Park Avenue, Suite 100

St. Louis, MO 63108

314-678-6100

To the extent required by law or the rules of the NASDAQ Global Market, any amendments to, or waiver
from, any provision of the Code of Business Conduct and Ethics will be promptly disclosed publicly. T
the extent permitted by such requirements, we intend to make such public disclosure by posting th
relevant material on our website (*www.stereotaxis.com*) in accordance with SEC rules.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item regarding executive compensation is incorporated by reference t
the information set forth in the sections titled Executive Compensation in our Proxy Statement.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners an management is incorporated by reference to the information set forth in the section titled Secur Ownership of Certain Beneficial Owners and Management in our Proxy Statement.

The following table summarizes certain information regarding our securities that may be issued pursuan to our equity compensation plans as of December 31, 2009.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securitie Remaining Availabl for Future Issuanc Under Equity Compensation Plan (Excluding Securities Reflected in Column (a))(1) (c)
Equity compensation plans approved by security holders	4,675,450	$ 6.63	948,32
Equity compensation plans not approved by security holders			
Total	4,675,450		948,32

(1) Includes 243,398 shares reserved for issuance under the 2009 Employee Stock Purchase Plan. Numbe of shares of common stock is subject to adjustment for changes in capitalization for stock splits, stoc dividends and similar events.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item regarding certain relationships and related transactions i incorporated by reference to the information set forth in the section titled Certain Relationships a Related Person Transactions and Director Independence in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item regarding principal accounting fees and services is incorporated b reference to the information set forth in the section titled Principal Accounting Fees and Services in Proxy Statement.

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PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K

(1) Financial Statements See Index to the Financial Statements at Item 8 of this Report
Form 10-K.

(2) The following financial statement schedule of Stereotaxis, Inc. is filed as part of this Repo
and should be read in conjunction with the financial statements of Stereotaxis, Inc.:

Schedule II: Valuation and Qualifying Accounts.

All other schedules have been omitted because they are not applicable, not required under the instruction
or the information requested is set forth in the consolidated financial statements or related notes thereto.

(3) Exhibits

See Exhibit Index appearing on page 86 herein.

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SIGNATURES

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

STEREOTAXIS, INC.

(Registrant)

Date: March 15, 2010

By: /s/ MICHAEL P. KAMINSKI
Michael P. Kaminski

President & Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitute
and appoints Michael P. Kaminski and Daniel J. Johnston, and each of them, his true and lawfu
attorneys-in-fact and agents, with full Power of substitution and resubstitution, for him and in his nam
place and stead, in any and all capacities to sign any and all amendments to this Annual Report on For
10-K and any other documents and instruments incidental thereto, and to file the same, with all exhibi
thereto, and other documents in connection therewith, with the Securities and Exchange Commissio
granting unto said attorneys-in-fact and agents, and each of them, full Power and authority to do an
perform each and every act and thing requisite or necessary to be done in and about the premises, as full
to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that sai
attorneys-in-fact and agents and/or any of them, or their or his substitute or substitutes, may lawfully do
cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below b
the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FRED A. MIDDLETON **Fred A. Middleton**	Chairman of the Board of Directors	March 15, 2010
/s/ MICHAEL P. KAMINSKI **Michael P. Kaminski**	President & Chief Executive Officer, Director (principal executive officer)	March 15, 2010
/s/ DANIEL J. JOHNSTON **Daniel J. Johnston**	Chief Financial Officer (principal financial officer and principal accounting officer)	March 15, 2010
/s/ CHRISTOPHER ALAFI **Christopher Alafi**	Director	March 15, 2010
/s/ DAVID W. BENFER **David W. Benfer**	Director	March 15, 2010
/s/ BEVIL J. HOGG	Director	March 15, 2010

	Bevil J. Hogg		
/s/ WILLIAM M. KELLEY		Director	March 15, 2010
	William M. Kelley		
/s/ ABHIJEET J. LELE		Director	March 15, 2010
	Abhijeet J. Lele		

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Signature	Title	Date
/s/ William C. Mills III **William C. Mills III**	Director	March 15, 2010
/s/ Robert J. Messey **Robert J. Messey**	Director	March 15, 2010
/s/ Eric N. Prystowsky **Eric N. Prystowsky**	Director	March 15, 2010

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007

	Balance at Beginning of Year	Additions Charged to Cost and Expenses	Deductions	Balance at the End Year
Allowance for doubtful accounts and returns:				
Year ended December 31, 2009	$ 328,307	$ 353,532	$ (359,376)	$ 322,46
Year ended December 31, 2008	189,040	207,798	(68,531)	328,30
Year ended December 31, 2007	90,716	280,648	(182,324)	189,04
Allowance for inventories valuation:				
Year ended December 31, 2009	$ 583,278	$ 321,058	$ (91,868)	$ 812,46
Year ended December 31, 2008	595,105	87,391	(99,218)	583,27
Year ended December 31, 2007	211,455	2,170,606	(1,786,956)	595,10

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EXHIBIT INDEX

Number	Description
3.1	Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3. of the Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter end September 30, 2004.
3.2	Restated Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 of th Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter ended September 2004.
4.1	Form of Specimen Stock Certificate, incorporated by reference to the Registration Statemer on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 200 as amended thereafter, at Exhibit 4.1.
4.2	Fourth Amended and Restated Investor Rights Agreement, dated December 17, 2002 by an among Registrant and certain stockholders, incorporated by reference to the Registratio Statement on Form S-1 (File No. 333-115253) originally filed with the Commission o May 7, 2004, as amended thereafter, at Exhibit 4.3.
4.3	Joinder Agreement to Series D-2 Preferred Stock Purchase Agreement, Fourth Amende and Restated Investor Rights Agreement and Amendment to Second Amended and Restate Stockholders Agreement dated January 21, 2003 by and among Registrant and certa stockholders, incorporated by reference to the Registration Statement on Form S-1 (File No 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafte at Exhibit 4.4.
4.4	Joinder and Amendment to Second Amended and Restated Stockholders Agreement a Fourth Amended and Restated Investor Rights Agreement, dated May 27, 2003 by an among Registrant and certain stockholders incorporated by reference to the Registratio Statement on Form S-1 (File No. 333-115253) originally filed with the Commission o May 7, 2004, as amended thereafter, at Exhibit 4.5.
4.5	Second Joinder and Amendment to Second Amended and Restated Stockholders Agreem and Fourth Amended and Restated Investor Rights Agreement, dated December 22, 2003 b and among Registrant and certain stockholders, incorporated by reference to the Registratio Statement on Form S-1 (File No. 333-115253) originally filed with the Commission o May 7, 2004, as amended thereafter, at Exhibit 4.6.
4.6	Third Joinder and Amendment to Second Amended and Restated Stockholders Agreem and Fourth Amended and Restated Investor Rights Agreement, dated January 28, 2004 b and among Registrant and certain stockholders, incorporated by reference to the Registratio Statement on Form S-1 (File No. 333-115253) originally filed with the Commission o May 7, 2004, as amended thereafter, at Exhibit 4.7.
4.7	Form of Warrant issued pursuant to that certain Note and Warrant Purchase Agreemen dated as of November 10, 2005, between the Registrant and the investors named therei incorporated by reference to Exhibit 4.2 of the Registrant s Form 10-Q (File No. 000-508 for the fiscal quarter ended September 30, 2005.
4.8	Form of Warrant issued pursuant to that certain Note and Warrant Purchase Agreemer effective February 7, 2008 between the Registrant and certain investors named therei (included in Exhibit 10.31a).
4.9	Form of Series A Warrant, issued pursuant to that certain Securities Purchase Agreemen dated December 29, 2008, incorporated by reference to Exhibit 4.1 of the Registrant Current Report on Form 8-K (File No. 000-50884) filed December 29, 2008.
4.10	Form of Series B, C and D Warrants, issued pursuant to that certain Securities Purchas Agreement, dated December 29, 2008, incorporated by reference to Exhibit 4.2 of th Registrant s Current Report on Form 8-K (File No. 000-50884) filed December 29, 2008.

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Number	Description
4.11	Form of Warrant, issued pursuant to that certain Securities Purchase Agreement, date December 29, 2008, incorporated by reference to Exhibit 4.3 of the Registrant s Current Rep on Form 8-K (File No. 000-50884) filed December 29, 2008.
10.1#	1994 Stock Option Plan, incorporated by reference to the Registration Statement on Form S- (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amende thereafter, at Exhibit 10.1.
10.2a#	2002 Stock Incentive Plan, as amended and restated June 10, 2009, incorporated by referenc to Exhibit 10.2 of the Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter enc June 30, 2009.
10.2b#	Form of Incentive Stock Option Award Agreement under the 2002 Stock Incentive Pla incorporated by reference to Exhibit 10.3 of the Registrant s Current Report on Form 8-K (F No. 000-50884) filed December 19, 2008.
10.2c#	Form of Non-Qualified Stock Option Award Agreement under the 2002 Stock Incentive Pla incorporated by reference to Exhibit 10.1 of the Registrant s Current Report on Form 8-K (F No. 000-50884) filed December 19, 2008.
10.2d#	Form of Restricted Stock Agreement under the 2002 Stock Incentive Plan, incorporated b reference to Exhibit 10.7 of the Registrant s Form 10-Q (File No. 000-50884) for the fis quarter ended June 30, 2008.
10.2e#	Form of Performance Share Agreement under the 2002 Stock Incentive Plan, incorporated b reference to Exhibit 10.8 of the Registrant s Form 10-Q (File No. 000-50884) for the fis quarter ended June 30, 2008.
10.2f#	Form of Stock Appreciation Right Award Agreement under the 2002 Stock Incentive Pla incorporated by reference to Exhibit 10.2 of the Registrant s Current Report on Form 8-K (F No. 000-50884) filed December 19, 2008.
10.3#	2009 Employee Stock Purchase Plan, as adopted June 10, 2009, incorporated by reference t Exhibit 10.1 of the Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter enc June 30, 2009.
10.4a#	2002 Non-Employee Directors Stock Plan, as amended and restated Mary 29, 200 incorporated by reference to Exhibit 10.4 of the Registrant s Form 10-Q (File No. 000-5088 for the fiscal quarter ended June 30, 2008.
10.4b#	Form of Non-Qualified Stock Option Agreement under the 2002 Non-Employee Director Stock Plan, incorporated by reference to Exhibit 10.1 of the Registrant s Form 10-Q (File N 000-50884) for the fiscal quarter ended June 30, 2005.
10.5a#	Restated Employment Agreement dated February 22, 2006 between Bevil J. Hogg and th Registrant, incorporated by reference to Exhibit 10.5 of the Registrant s Form 10-K (File N 000-50884) for the fiscal year ended December 31, 2007.
10.5b#	Amended and Restated Employment Agreement dated November 25, 2008, between Bevil Hogg and the Registrant, incorporated by reference to Exhibit 10.5b of the Registrant s Fo 10-K (File No. 000-50884) for the fiscal year ended December 31, 2008.
10.6a#	Employment Agreement dated April 4, 2001 between Douglas M. Bruce and the Registran incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253 originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.6.
10.6b#	Amendment to Employment Agreement dated August 6, 2009 between Douglas M. Bruce an the Registrant, incorporated by reference to Exhibit 10.4 of the Registrant s Form 10-Q (F No. 000-50884) for the fiscal quarter ended June 30, 2009.

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Number	Description
10.7a#	Employment Agreement dated February 16, 2001 between Melissa Walker and the Registran incorporated by reference to the Registration Statement on Form S-1 (File No. 333-115253 originally filed with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.7.
10.7b#	Amendment to Employment Agreement dated August 6, 2009 between Melissa C. Walke and the Registrant, incorporated by reference to Exhibit 10.7 of the Registrant s Form 10 (File No. 000-50884) for the fiscal quarter ended June 30, 2009.
10.8a#	Employment Agreement dated April 17, 2002 between Michael P. Kaminski and th Registrant, incorporated by reference to the Registration Statement on Form S-1 (File No 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, a Exhibit 10.8.
10.8b#	First Amendment to Employment Agreement dated as of May 29, 2008, by and between th Registrant and Micheal P. Kaminski, incorporated by reference to Exhibit 10.1 of th Registrant s Current Report on Form 8-K (File No. 000-50884) filed June 3, 2008.
10.8c#	Corrected Second Amendment to Employment Agreement dated August 6, 2009 by an between Michael P. Kaminski and the Registrant, incorporated by reference to Exhibit 10.3 o the Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2009.
10.9a#	Letter Agreement and Employment Agreement dated May 26, 2004 between James M. Stolz and the Registrant, incorporated by reference to the Registration Statement on Form S-1 (Fil No. 333-115253) originally filed with the Commission on May 7, 2004, as amende thereafter, at Exhibit 10.17.
10.9b#	Amendment to Employment Agreement dated August 6, 2009 between James M. Stolze an the Registrant, incorporated by reference to Exhibit 10.6 of the Registrant s Form 10-Q (F No. 000-50884) for the fiscal quarter ended June 30, 2009.
10.10a#	Employment Agreement, dated June 2, 2008, between the Registrant and Louis T. Ruggiero incorporated by reference to Exhibit 10.3 of the Registrant s Form 10-Q (File No. 000-5088 for the fiscal quarter ended June 30, 2008.
10.10b#	Amendment to Employment Agreement dated August 6, 2009 between Louis T. Ruggiero an the Registrant, incorporated by reference to Exhibit 10.5 of the Registrant s Form 10-Q (F No. 000-50884) for the fiscal quarter ended June 30, 2009.
10.11#	Employment Agreement dated August 5, 2009 between Dan Johnston and the Registran incorporated by reference to Exhibit 10.8 of the Registrant s Form 10-Q (File No. 000-5088 for the fiscal quarter ended June 30, 2009.
10.12#	Summary of annual cash compensation of executive officers (filed herewith).
10.13#	Summary of Non-Employee Directors Compensation, incorporated by reference to Exhi 10.5 of the Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 2008.
10.14	Stereotaxis Advisory Board and Consulting Agreement, dated February 25, 2009, between th Company and Eric N. Prystowsky, MD, incorporated by reference to Exhibit 10.3 of th Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter ended March 31, 2009.
10.15	Collaboration Agreement dated June 8, 2001 between the Registrant and Siemens AG Medical Solutions, incorporated by reference to the Registration Statement on Form S-1 (Fil No. 333-115253) originally filed with the Commission on May 7, 2004, as amende thereafter, at Exhibit 10.9.
10.16	Extended Collaboration Agreement dated May 27, 2003 between the Registrant and Siemen AG, Medical Solutions, incorporated by reference to the Registration Statement on Form S- (File No. 333-115253) originally filed with the Commission on May 7, 2004, as amende thereafter, at Exhibit 10.10.

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Number	Description
10.17	Amendment to Collaboration Agreement dated May 5, 2006 between the Company an Siemens Aktiengesellschaft, Medical Solutions, incorporated by reference to Exhibit 10.1 o the Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter ended June 30, 2006.
10.18	Development and Supply Agreement dated May 7, 2002 between the Registrant and Biosens Webster, Inc., incorporated by reference to the Registration Statement on Form S-1 (File No 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, a Exhibit 10.11.
10.19	Amendment to Development and Supply Agreement dated November 3, 2003 between th Registrant and Biosense Webster, Inc., incorporated by reference to the Registration Statemen on Form S-1 (File No. 333-115253) originally filed with the Commission on May 7, 2004, a amended thereafter, at Exhibit 10.12.
10.20	Alliance Expansion Agreement, dated as of May 4, 2007, between Biosense Webster, Inc. an the Registrant, incorporated by reference to Exhibit 10.1 of the Registrant s Form 10-Q (F No. 000-50884) for the fiscal quarter ended June 30, 2007.
10.21	Second Amendment to Development Alliance and Supply Agreement, dated as of July 18 2008, between the Registrant and Biosense Webster, Inc., incorporated by reference to Exhib 10.1 of the Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter end September 30, 2008.
10.22	Third Amendment to the Development Alliance and Supply Agreement with Biosens Webster, Inc. (filed herewith)
10.23	Form of Indemnification Agreement between the Registrant and its directors and executiv officers, incorporated by reference to the Registration Statement on Form S-1 (File No 333-115253) originally filed with the Commission on May 7, 2004, as amended thereafter, a Exhibit 10.14.
10.24	Letter Agreement, effective October 6, 2003, between the Registrant and Philips Medizi Systeme G.m.b.H., incorporated by reference to the Registration Statement on Form S-1 (Fil No. 333-115253) originally filed with the Commission on May 7, 2004, as amende thereafter, at Exhibit 10.16.
10.25	Japanese Market Development Agreement dated May 18, 2004 between the Registran Siemens Aktiengesellschaft and Siemens Asahi Medical Technologies Ltd., incorporated b reference to the Registration Statement on Form S-1 (File No. 333-115253) originally file with the Commission on May 7, 2004, as amended thereafter, at Exhibit 10.32.
10.26	Office Lease dated November 15, 2004 between the Registrant and Cortex West Developmen I, LLC, incorporated by reference to Exhibit 10.39 of the Registrant s Form 10-K (File N 000-50884) for the fiscal year ended December 31, 2004.
10.27	Amendment to Office Lease dated November 30, 2007 between the Registrant and Corte West Development I, LLC, incorporated by reference to Exhibit 10.22 of the Registrant s Fo 10-K (File No. 000-50884) for the fiscal year ended December 31, 2007.
10.28	Amended and Restated Loan and Security Agreement, dated March 12, 2009, between th Company and Silicon Valley Bank, incorporated by reference to Exhibit 10.1 of th Registrant s Form 10-Q/A (File No. 000-50884) for the fiscal quarter ended March 31, 2009.
10.29	First Loan Modification Agreement (Domestic), by and between Silicon Valley Bank an Stereotaxis, Inc., dated December 15, 2009, incorporated by reference to Exhibit 10.1 of th Registrant s Form 8-K (File No. 000-50884) filed on December 21, 2009.
10.30	Export-Import Bank Loan and Security Agreement, dated March 12, 2009, between th Company, Stereotaxis International, Inc., and Silicon Valley Bank, incorporated by referenc to Exhibit 10.2 of the Registrant s Form 10-Q (File No. 000-50884) for the fiscal quarter end March 31, 2009.

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Number	Description
10.31a	Note and Warrant Purchase Agreement, effective February 7, 2008, between the Registrant and the investors named therein, incorporated by reference to Exhibit 10.31 of the Registrant Form 10-K (File No. 000-50884) for the fiscal year ended December 31, 2007.
10.31b	First Amendment to Note and Warrant Purchase Agreement, effective December 29, 2008, between the Registrant and the investors named therein, incorporated by reference to Exhibit 10.32 of the Registrant s Form 10-K (File No. 000-50884) for the fiscal year ended December 31, 2008.
10.31c	Second Amendment to Note and Warrant Purchase Agreement, effective October 9, 2009, between the Registrant and the investors named therein (filed herewith).
21.1	List of Subsidiaries of the Registrant (filed herewith).
23.1	Consent of Ernst & Young LLP
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)

# Indicates management contract or compensatory plan
Confidential treatment granted as to certain portions, which portions are omitted and filed separatel with the Securities and Exchange Commission.