Stereotaxis, Inc.
Form 10-Q
November 09, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006.

¨ **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: 000-50884

STEREOTAXIS, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State of Incorporation)**	**94-3120386** **(I.R.S. employer identification no.)**
4320 Forest Park Avenue	
Suite 100	
St. Louis, Missouri **(Address of principal executive offices)**	**63108** **(Zip Code)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

¨ Large accelerated filer x Accelerated filer ¨ Non-accelerated filer

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

The number of outstanding shares of the registrant s common stock on October 31, 2006 was 34,519,958.

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ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.

BALANCE SHEETS

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 22,629,306	$ 3,598,493
Short-term investments	17,187,498	7,137,094
Accounts receivable, net of allowance of $116,930 and $29,576 in 2006 and 2005, respectively	12,951,933	5,897,072
Current portion of long-term receivables	156,927	461,520
Inventory	9,044,835	9,404,792
Prepaid expenses and other current assets	2,522,990	5,128,852
Total current assets	64,493,489	31,627,823
Property and equipment, net	4,300,087	3,078,313
Intangible assets, net	1,577,778	1,677,778
Long-term receivables		146,520
Other assets	324,006	127,755
Total assets	$ 70,695,360	$ 36,658,189
Liabilities and stockholders equity		
Current liabilities:		
Current maturities of long-term debt	$ 833,333	$ 1,000,000
Accounts payable	3,856,880	4,866,156
Accrued liabilities	7,661,311	5,648,693
Deferred contract revenue	7,260,997	4,216,255
Total current liabilities	19,612,521	15,731,104
Long-term debt, less current maturities	1,388,889	1,972,222
Long-term deferred contract revenue	766,494	801,005
Other liabilities	73,360	28,016
Stockholders equity:		
Preferred stock, par value $0.001; 10,000,000 shares authorized at 2006 and 2005, none outstanding at 2006 and 2005		
Common stock, par value $0.001; 100,000,000 shares authorized at 2006, and 2005; 34,540,388 and 27,835,611 issued at 2006 and 2005, respectively	34,540	27,836
Additional paid-in capital	246,814,637	179,286,612
Deferred compensation		(2,569,760)
Treasury stock, 40,151 and 36,519 shares at 2006 and 2005, respectively	(205,999)	(162,546)
Notes receivable from sales of stock		(180,619)
Accumulated deficit	(197,790,477)	(158,231,069)
Accumulated other comprehensive income (loss)	1,395	(44,612)
Total stockholders equity	48,854,096	18,125,842
Total liabilities and stockholders equity	$ 70,695,360	$ 36,658,189

See accompanying notes.

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STEREOTAXIS, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenue:				
Systems revenue	$ 6,370,082	$ 1,164,570	$ 10,212,780	$ 11,257,060
Disposables, service and accessories revenue	1,270,231	523,769	2,973,346	1,663,906
Total revenue	7,640,313	1,688,339	13,186,126	12,920,966
Cost of revenue	3,675,522	791,436	7,089,938	6,426,245
Gross margin	3,964,791	896,903	6,096,188	6,494,721
Operating expenses:				
Research and development	5,576,769	4,900,054	17,247,408	12,593,401
General and administration	4,244,995	4,082,567	12,550,143	10,571,889
Sales and marketing	5,879,047	3,987,917	16,467,817	11,597,686
Royalty settlement				2,923,111
Total operating expenses	15,700,811	12,970,538	46,265,368	37,686,087
Operating loss	(11,736,020)	(12,073,635)	(40,169,180)	(31,191,366)
Interest income	527,812	228,077	1,638,643	794,053
Interest expense	(145,365)	(60,737)	(1,028,871)	(180,821)
Net loss	$ (11,353,573)	$ (11,906,295)	$ (39,559,408)	$ (30,578,134)
Net loss per common share:				
Basic and diluted	$ (0.34)	$ (0.44)	$ (1.21)	$ (1.12)
Weighted average shares used in computing net loss per common share:				
Basic and diluted	33,541,140	27,365,263	32,641,732	27,268,772

See accompanying notes.

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STEREOTAXIS, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2006	2005
Cash flows from operating activities:		
Net loss	$ (39,559,408)	$ (30,578,134)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	880,841	563,854
Amortization	552,062	78,592
Noncash compensation	3,186,943	424,752
Interest receivable from sale of stock	48,992	
Noncash interest receivable	(2,006)	11,019
Loss on asset disposal	6,968	46,928
Changes in operating assets and liabilities:		
Accounts receivable	(7,054,861)	(304,013)
Long-term receivables	451,113	(421,135)
Inventories	359,957	(2,914,440)
Prepaid expenses and other current assets	1,931,549	(636,849)
Other assets	(196,251)	(1,318)
Accounts payable	(1,009,276)	2,246,640
Accrued liabilities	2,012,618	1,995,391
Deferred contract revenue	3,010,231	844,435
Other	45,344	9,719
Net cash used in operating activities	(35,335,184)	(28,634,559)
Cash flows from investing activities:		
Sale of equipment	10,071	
Purchase of equipment	(2,119,654)	(908,873)
Proceeds from the maturity/sale of available-for-sale investments	16,504,217	26,893,000
Purchase of available-for-sale investments	(26,287,430)	(8,097,777)
Net cash (used in) provided by investing activities	(11,892,796)	17,886,350
Cash flows from financing activities:		
Payments under long-term debt	(750,000)	(743,767)
Proceeds from issuance of stock and warrants, net of issuance costs	66,917,546	975,470
Purchase of treasury stock	(43,453)	
Payments received on notes receivable from sale of common stock	134,700	
Net cash provided by financing activities	66,258,793	231,703
Net increase (decrease) in cash and cash equivalents	19,030,813	(10,516,506)
Cash and cash equivalents at beginning of period	3,598,493	16,907,516
Cash and cash equivalents at end of period	$ 22,629,306	$ 6,391,010

See accompanying notes.

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STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Basis of Presentation

The accompanying unaudited financial statements of Stereotaxis, Inc. (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, they include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006 or for future operating periods. These interim financial statements and the related notes should be read in conjunction with the annual financial statements and notes included in the Company s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 16, 2006 for the year ended December 31, 2005. Certain prior period amounts have been reclassified to conform to the 2006 presentation.

Net Loss Per Common Share

Basic net loss per common share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing the loss for the period by the weighted average number of common and common equivalent shares outstanding during the period as described below.

The Company has deducted shares subject to repurchase and unearned restricted shares from the calculation of shares used in computing net loss per share, basic and diluted. The Company has excluded all outstanding options, stock appreciation rights and warrants from the calculation of diluted loss per common share because all such securities are anti-dilutive for all periods presented. As of September 30, 2006, the Company had 2,487,589 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of $7.08 per share and 702,696 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $8.33 per share. The Company had a weighted average of 572,076 unearned restricted shares excluded from the calculation of net loss per common share for the nine months ended September 30, 2006.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board Statement No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified prospective transition method to account for its grants of stock options, stock appreciation rights, restricted shares and its employee stock purchase plan. SFAS 123(R) supersedes the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB Opinion No. 25) and requires recognition of an expense when goods or services are provided. SFAS 123(R) requires the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation vests. Prior to January 1, 2006, the Company accounted for those plans under the provisions of APB Opinion No. 25, and related interpretations in accounting for stock-based employee compensation as permitted by SFAS 123, *Accounting for Stock-Based Compensation.* Prior to the adoption of SFAS 123(R), stock-based compensation for grants of stock options was included as a pro forma disclosure in the Notes to the Consolidated Financial Statements as permitted by SFAS 123. Results for prior periods have not been restated.

Under the modified prospective transition method of SFAS 123(R), the Company recognized stock-based compensation expense related to 1) the remaining unvested portion of all stock option, stock appreciation right and restricted share awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123; and 2) expense related to all stock option, stock appreciation rights and restricted share awards modified or granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Company utilizes the Black-Scholes valuation model to determine the fair value of share-based payments at the date of grant with the following inputs: 1) expected dividend rate of 0%; 2) expected volatility based on the Company s historical volatility and a review of the volatilities of 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 adoption of SFAS 123(R) determined in accordance with Staff Accounting Bulletin No. 107 using the simplified method. The resulting compensation expense is recognized over the requisite service period, generally one to four years. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated based on the Company s historical experience and future expectations. Prior to the adoption of SFAS 123(R), the effect of forfeitures on the pro forma expense amounts was recognized as the forfeitures occurred.

Stock options or stock appreciation rights issued to non-employees, including individuals for scientific advisory services, are recorded at their fair value as determined in accordance with SFAS 123 and Emerging Issues Task Force (EITF) No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services,* and recognized over the service period. Deferred compensation for options granted to non-employees is periodically remeasured through the vesting or forfeiture date.

Restricted shares granted to employees are valued at the fair market value at the date of grant. The Company amortizes the amount to expense over the service period on a straight-line basis. If the shares are subject to performance objectives, the resulting compensation expense is amortized over the anticipated vesting period and is subject to adjustment based on the actual achievement of objectives. Under APB 25, if the shares granted were subject to variable performance criteria, the compensation expense was periodically remeasured through the vesting or forfeiture date.

Shares purchased by employees under the 2004 Employee Stock Purchase Plan are considered to be compensatory and are accounted for in accordance with SFAS 123(R). Under APB Opinion 25, these shares were not considered to be compensatory and were not included in expense but were included in the pro forma expense calculation.

As a result of adopting SFAS 123(R), the Company recorded approximately $1.1 million and $3.2 million of share based compensation during the three and nine months ended September 30, 2006. As a result, the Company s net loss for the three and nine month periods ended September 30, 2006 was approximately $0.3 million and $1.2 million lower, respectively, than if it had continued to account for share-based compensation under APB Opinion No. 25. Net loss per share for the three and nine month periods ended September 30, 2006 are $0.01 and $0.04 lower, respectively than if the Company had continued to account for share-based compensation under APB Opinion No. 25.