Stereotaxis, Inc.
Form 10-Q
May 07, 2010
Table of Contents

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, 2010.

¨ **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	**94-3120386**
(State of Incorporation)	**(I.R.S. employer identification no.)**
4320 Forest Park Avenue	
Suite 100	
St. Louis, Missouri	**63108**
(Address of principal executive offices)	**(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

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

Large accelerated filer ¨		Accelerated filer	x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)		Smaller reporting company	¨

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

The number of outstanding shares of the registrant s common stock on April 30, 2010 was 50,434,532.

Table of Contents

STEREOTAXIS, INC.

INDEX TO FORM 10-Q

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

STEREOTAXIS, INC.

BALANCE SHEETS

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 24,512,979	$ 30,546,550
Accounts receivable, net of allowance of $177,362 and $322,463 in 2010 and 2009, respectively	10,580,935	11,152,648
Current portion of long-term receivables	66,800	66,800
Inventories	4,940,183	4,403,675
Prepaid expenses and other current assets	4,048,203	3,872,535
Total current assets	44,149,100	50,042,208
Property and equipment, net	4,584,611	4,790,310
Intangible assets, net	1,111,111	1,144,445
Long-term receivables	127,762	138,441
Other assets	5,113	5,112
Total assets	$ 49,977,697	$ 56,120,516
Liabilities and stockholders equity		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$ 14,166,666	$ 3,333,333
Accounts payable	5,037,547	3,881,205
Accrued liabilities	6,995,774	8,615,287
Deferred revenue	8,120,584	7,191,492
Warrants	5,679,783	4,142,614
Total current liabilities	40,000,354	27,163,931
Long-term debt, less current maturities	8,489,530	20,346,655
Long-term deferred revenue	822,928	948,574
Other liabilities	16,733	20,013
Stockholders equity:		
Preferred stock, par value $0.001; 10,000,000 shares authorized at 2010 and 2009, none outstanding at 2010 and 2009		
Common stock, par value $0.001; 100,000,000 shares authorized at 2010 and 2009, 50,424,664 and 50,208,171 shares issued at 2010 and 2009, respectively	50,425	50,208
Additional paid in capital	332,683,067	331,249,918
Treasury stock, 40,151 shares at 2010 and 2009	(205,999)	(205,999)
Accumulated deficit	(331,879,341)	(323,452,784)
Total stockholders equity	648,152	7,641,343
Total liabilities and stockholders equity	$ 49,977,697	$ 56,120,516

See accompanying notes.

Table of Contents

STEREOTAXIS, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenue:		
Systems	$ 5,233,755	$ 6,860,807
Disposables, service and accessories	5,382,854	4,272,327
Total revenue	10,616,609	11,133,134
Cost of revenue:		
Systems	2,076,717	2,563,483
Disposables, service and accessories	843,953	897,199
Total cost of revenue	2,920,670	3,460,682
Gross margin	7,695,939	7,672,452
Operating expenses:		
Research and development	3,369,538	3,309,862
Sales and marketing	6,695,117	7,453,439
General and administrative	3,890,336	4,038,156
Total operating expenses	13,954,991	14,801,457
Operating loss	(6,259,052)	(7,129,005)
Other income (expense)	(1,537,169)	250,937
Interest income	2,782	26,972
Interest expense	(633,118)	(678,991)
Net loss	$ (8,426,557)	$ (7,530,087)
Net loss per common share:		
Basic and diluted	$ (0.17)	$ (0.18)
Weighted average shares used in computing net loss per common share:		
Basic and diluted	49,621,318	41,281,130

See accompanying notes.

Table of Contents

STEREOTAXIS, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2010	2009
Cash flows from operating activities		
Net loss	$ (8,426,557)	$ (7,530,087)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	503,914	499,541
Amortization	33,334	33,333
Amortization of warrants	339,270	174,345
Share-based compensation	98,387	1,185,626
Loss on asset disposal	4,556	12,437
Non-cash expense net of non-cash royalty (income)	(857,125)	(431,104)
Warrant adjustment	1,537,169	(250,937)
Changes in operating assets and liabilities:		
Accounts receivable	571,713	(2,830,973)
Other receivables	10,679	20,049
Inventories	(573,783)	(58,735)
Prepaid expenses and other current assets	(98,371)	(69,840)
Other assets		(481)
Accounts payable	1,156,342	769,067
Accrued liabilities	(1,191,917)	(543,300)
Deferred revenue	803,446	(1,383,129)
Other liabilities	(3,281)	(12,440)
Net cash used in operating activities	(6,092,224)	(10,416,628)
Cash flows from investing activities		
Purchase of equipment	(265,496)	(1,046,836)
Net cash used in investing activities	(265,496)	(1,046,836)
Cash flows from financing activities		
Proceeds from long-term debt	10,000,000	
Payments of long-term debt	(10,166,667)	(166,666)
Proceeds from issuance of stock and warrants, net of issuance costs	490,816	74,235
Net cash provided by (used in) financing activities	324,149	(92,431)
Net decrease in cash and cash equivalents	(6,033,571)	(11,555,895)
Cash and cash equivalents at beginning of period	30,546,550	30,355,657
Cash and cash equivalents at end of period	$ 24,512,979	$ 18,799,762

See accompanying notes.

Table of Contents

STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Notes to Financial Statements

1. 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 month period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010 or for future operating periods.

These interim financial statements and the related notes should be read in conjunction with the annual financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the SEC on March 15, 2010.

2. Summary of Significant Accounting Policies

Revenue and Costs of Revenue

For arrangements with multiple deliverables, the Company allocates the total revenue to each deliverable based on the provisions of general accounting principles for revenue recognition and multiple-deliverable revenue arrangements and recognizes revenue for each separate element as the criteria for revenue recognition are met. Each element is assigned an estimated selling price using vendor-specific objective evidence, third party evidence, or management s estimate.

Under our revenue recognition policy, a portion of revenue for Niobe systems is recognized upon delivery, provided that title has passed, there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and collection of the related receivable is reasonably assured. Beginning in the quarter ended March 31, 2010, revenue for certain Odyssey systems was recognized upon delivery due to the fact that third parties became qualified to perform installations. However, this change did not have a material impact on revenue recognition for the three months ended March 31, 2010. Revenue is recognized for other types of Odyssey systems upon completion of installation, since there are no qualified third party installers. When installation is the responsibility of the customer, revenue from system sales is recognized upon shipment since these arrangements do not include an installation element or right of return privileges. We may deliver systems to a non-hospital site at the customer s request. We evaluate whether delivery has occurred considering general accounting principles for revenue recognition with respect to bill and hold transactions. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue.

Revenue from services and license fees, whether sold individually or as a separate unit of accounting in a multiple-deliverable arrangement, is deferred and amortized over the service or license fee period, which is typically one year. Revenue from services is derived primarily from the sale of annual product maintenance plans. We recognize revenue from disposable device sales or accessories upon shipment and establish an appropriate reserve for returns. The return reserve, which is applicable only to disposable devices, is estimated based on historical experience which is periodically reviewed and updated as necessary. In the past, changes in estimate have had only a de minimus effect on revenue recognized in the period. We believe that the estimate is not likely to change significantly in the future.

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

Net Loss per Common Share

Basic and diluted 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. The largest adjustment between the shares outstanding at March 31, 2010 and the weighted average shares used for calculating basic earnings per share is the deduction of unearned restricted shares, which amounted to 616,111 at March 31, 2010. This amount is primarily comprised of 525,716 performance-based shares that are outstanding at March 31, 2010, but for which the performance conditions are not expected

Table of Contents

STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

As of March 31, 2010, the Company had 5,016,674 shares of common stock issuable upon the exercise of outstanding options and stock appreciation rights at a weighted average exercise price of $6.49 per share and 9,623,711 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $4.26 per share. The Company had a weighted average of 616,111 unearned restricted shares for the three months ended March 31, 2010.

Fair Value Measurements

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

The Company s financial assets consist of cash equivalents invested in money market funds in the amount of $20,991,377 and $27,239,083 at March 31, 2010 and December 31, 2009, respectively. These assets are classified as Level 1 as described above and total interest income recorded for these investments was approximately $2,800 during the three months ended March 31, 2010. There were no transfers in or out of Level 1 during the three months ended March 31, 2010.

The Company s financial liabilities consist of warrants in the amount of $5,679,783 at March 31, 2010. These liabilities are classified as Level 3 as described above and are measured using the Black-Scholes valuation model. The mark-to-market adjustment recorded in other income (expense) for these warrants was $1,537,169 during the three months ended March 31, 2010. There were no purchases, sales, issuances, transfers, or settlements of Level 3 financial instruments during the three months ended March 31, 2010. These warrants were transferred into Level 3 on January 1, 2009 based on the adoption of general accounting principles for determining whether an instrument (or embedded feature) is indexed to an entity s own stock. See Note 10 for additional details.

Fair Value Other Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for other financial instruments as of March 31, 2010 and December 31, 2009.

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses have carrying values which approximate fair value due to the short maturity or the financial nature of these instruments.

Long and short-term debt fair value estimates are based on estimated borrowing rates to discount the cash flows to their present value. See Note 8 for disclosure of the fair value of debt.

Share-Based Compensation

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

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

Table of Contents

STEREOTAXIS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

Recently Issued Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update 2010-06 (ASU 2010-06), which is an amendment to the Fair Value Measurements and Disclosures topic of the Accounting Standards Codification. This amendment requires disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This amendment is effective for periods beginning after Dec. 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements, which will be effective for fiscal years beginning after Dec. 15, 2010. See Fair Value Measurements section of Note 2 for required disclosures.

Comprehensive Loss

Comprehensive loss generally represents all changes in stockholders equity except those resulting from investments by stockholders, and included the Company s unrealized income (loss) on marketable securities. During the three months ended March 31, 2010 and 2009, unrealized gains or losses related to investments were $0. Accumulated other comprehensive income (loss) at March 31, 2010 and 2009 was $0.