

Stereotaxis, Inc.  
Form DEF 14A  
April 17, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_ )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Materials Pursuant to Rule 14a-11(c) or Rule 14a-12

**STEREOTAXIS, INC.**

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box)

No Fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies.

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:\*

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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\* Set forth the amount on which the filing fee is calculated and state how it was determined.

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STEREOTAXIS, INC.

4320 Forest Park Avenue

Suite 100

St. Louis, Missouri 63108

(314) 678-6100

April 17, 2008

Dear Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders on May 29, 2008. We will hold the meeting at 9:00 a.m. Central Daylight Time at our principal executive offices, which are located at 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108.

You may have noticed changes in the way we are providing proxy materials to our stockholders in connection with our 2008 Annual Meeting. This is because we have elected to provide access to our proxy materials over the Internet under the Securities and Exchange Commission's new notice and access rules.

Details regarding the business to be conducted are described in the Notice of Internet Availability of Proxy Materials (the "Notice") you received in the mail and in this proxy statement. We have also made available a copy of our 2007 Annual Report on Form 10-K with this proxy statement. We encourage you to read our Annual Report on Form 10-K. It includes our audited financial statements and provides information about our business and products.

At the meeting you will be asked to elect two Class I Directors, approve an amendment to our 2002 Stock Incentive Plan to increase the number of shares reserved for issuance thereunder by 1,500,000 shares, ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our current fiscal year, and transact such other business as may properly come before the meeting.

Whether or not you plan to attend the Annual Meeting of Stockholders, we encourage you to vote your shares. If your shares are held in the name of a bank, broker or other holder of record, you must present proof of your ownership, such as a bank or brokerage account statement, to be admitted to the meeting. All stockholders must also present a form of personal identification in order to be admitted to the meeting. You may vote by mail, Internet, telephone, or in person at the meeting.

On behalf of the entire Board, we look forward to seeing you at the meeting.

Sincerely,

**Fred A. Middleton**

**Chairman of the Board of Directors**

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STEREOTAXIS, INC.

4320 Forest Park Avenue

Suite 100

St. Louis, Missouri 63108

(314) 678-6100

***NOTICE OF ANNUAL MEETING OF STOCKHOLDERS***

***May 29, 2008***

The Annual Meeting of Stockholders of Stereotaxis, Inc. will be held at our principal executive offices located at 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108, on Thursday, May 29, 2008, at 9:00 a.m., Central Daylight Time, for the following purposes:

1. To elect two Directors as Class I Directors to serve until our 2011 Annual Meeting;
2. To approve an amendment to our 2002 Stock Incentive Plan to increase the number of shares reserved for issuance thereunder by 1,500,000 shares;
3. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2008; and
4. To transact such other business as may properly come before the meeting.

We first began sending to all stockholders of record a Notice of Internet Availability of Proxy Materials on April 17, 2008. Please note that our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, is available for viewing on the Internet. Please refer to the instructions on the Notice of Internet Availability of Proxy Materials you received in the mail.

By Order of the Board of Directors,

STEREOTAXIS, INC.

James L. Nous, Jr.

*Secretary*

St. Louis, Missouri

April 17, 2008

***IMPORTANT NOTICE***

***Please Vote Your Shares Promptly***

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**I. QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

***Q. Why am I receiving these materials?***

The Board of Directors of Stereotaxis, Inc. (the Company) is soliciting proxies from the Company's stockholders in connection with its 2008 Annual Meeting of Stockholders to be held on Thursday, May 29, 2008, and any and all adjournments thereof. A Notice of Internet Availability of Proxy Materials was first sent to our stockholders on or before April 17, 2008. You are encouraged to vote on the proposals presented in these proxy materials. You are invited to attend the Annual Meeting, but you do not have to attend to vote.

***Q. When and where is the Annual Meeting?***

We will hold the Annual Meeting of Stockholders on Thursday, May 29, 2008, at 9:00 a.m., Central Daylight Time, at our principal executive offices located at 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108.

***Q. Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?***

In accordance with rules recently adopted by the Securities and Exchange Commission (the SEC), we may now furnish proxy materials, including this proxy statement and our 2007 Annual Report on Form 10-K to our stockholders by providing access to such documents on the Internet instead of mailing printed copies. Most stockholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice, which was mailed to most of our stockholders, will instruct you as to how you may access and review all of the proxy materials on the Internet. The Notice also instructs you as to how you may submit your proxy on the Internet. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice.

***Q. How do I get electronic access to the proxy materials?***

The Notice will provide you with instructions regarding how to view our proxy materials for the Annual Meeting on the Internet.

***Q. Who is entitled to vote at the meeting?***

You are entitled to vote (in person or by proxy) if you were a stockholder of record of shares of our common stock at the close of business on April 1, 2008, the record date for the meeting. On April 1, 2008 there were 37,141,150 shares of our common stock outstanding and entitled to vote and no shares of our preferred stock outstanding.

***Q. What am I being asked to vote on at the meeting?***

We are asking our stockholders to (1) elect two Class I Directors to serve until our 2011 Annual Meeting of Stockholders, (2) approve an amendment to our 2002 Stock Incentive Plan to increase the number of shares reserved for issuance thereunder by 1,500,000 shares and (3) ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the 2008 fiscal year.

***Q. How do I vote?***

Whether or not you expect to be present in person at the Annual Meeting, you are requested to vote your shares. Most stockholders will be able to choose whether they wish to vote using the Internet, by telephone or mail. The availability of Internet voting or telephone voting for stockholders whose shares are held in street name by a bank or a broker may depend on the voting processes of that organization. If you vote using the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. Internet and telephone voting facilities will be available 24 hours a day and will close at 5:00 p.m., Central Daylight Time, on May 28, 2008, the day before the date of the Annual Meeting. If you are a shareholder of record and you attend the meeting, you may vote by ballot.

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Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Annual Meeting. If you are a stockholder of record, you may vote by proxy. You can vote by proxy over the Internet or by telephone by following the instructions provided in the Notice, or, if you requested to receive printed proxy materials, you can also vote by mail or telephone pursuant to instructions provided on the proxy card. If you hold



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shares beneficially in street name, you may also vote by proxy over the Internet or by telephone by following the instructions provided in the Notice, or, if you requested to receive printed proxy materials, you can also vote by telephone or mail by following the voting instruction card provided to you by your broker, bank, trustee or nominee.

### ***Q. What if I want to change my vote?***

If you are a stockholder of record, you can revoke your proxy at any time before it is exercised by:

timely delivery of a properly executed, later-dated proxy;

submission of a later vote by Internet or telephone any time prior to 5:00 p.m., Central Daylight Time, on May 28, 2008;

delivery of a written revocation of your proxy to our Secretary at our principal executive offices; or

voting by ballot at the meeting.

If your shares are held in the name of a bank or brokerage firm, you may change your vote by submitting new voting instructions to your bank or broker following the instructions that they provide.

### ***Q. What vote of the stockholders is needed?***

No business can be conducted at the Annual Meeting unless a majority of the outstanding shares of common stock entitled to vote is present in person or represented by proxy at the meeting. Each share of our common stock is entitled to one vote with respect to each matter on which it is entitled to vote. A plurality of the shares entitled to vote and present in person or by proxy at the meeting must be voted **FOR** a director nominee. A majority of shares entitled to vote and present in person or by proxy at the meeting must be voted **FOR** the approvals relating to the 2002 Stock Incentive Plan, **FOR** the ratification of Ernst & Young LLP as our independent registered public accounting firm for the 2008 fiscal year and **FOR** such other business as may properly come before the meeting.

### ***Q. What do I do if my shares of common stock are held in street name at a bank or brokerage firm?***

If your shares are held in an account at a brokerage firm, bank, broker-dealer, trust or other similar organization, like the vast majority of our stockholders, you are considered the beneficial owner

of shares held in street name, and the Notice was forwarded to you by that organization. As the beneficial owner, you have the right to direct your broker, bank, trustee or nominee how to vote your shares, and you are also invited to attend the Annual Meeting.

### ***Q. What happens if I request a paper copy of the proxy material and return my signed proxy card but forget to indicate how I want my shares of common stock voted?***

If you sign, date and return your proxy and do not mark how you want to vote, your proxy will be counted as a vote **FOR** all of the nominees for directors, **FOR** the approval relating to the 2002 Stock Incentive Plan and **FOR** the ratification of our independent registered public accounting firm, and in the discretion of the proxy holders for such other business as may properly come before the meeting.

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***Q. What happens if I do not instruct my broker how to vote or if I indicate I wish to abstain on the proxy?***

If you indicate that you wish to abstain, your vote will have the same effect as a vote against the proposal or the election of the applicable director. If you do not instruct your broker how to vote, your broker will vote your shares for you at his or her discretion on routine matters such as the election of directors and ratification of the independent registered public accounting firm. Broker non-votes with respect to a matter will not be considered as present and entitled to vote with respect to that matter and thus will have no effect on the vote for that matter.

The approval of the amendment to the 2002 Stock Incentive Plan is a non-routine matter. Therefore, unless you give specific instructions to your broker regarding voting on the approval of the amendment, your broker will be unable to vote your shares on that matter. Non-voted shares on non-routine matters are broker non-votes .

***Q. What do I need to do if I plan to attend the meeting in person?***

If your shares are held in the name of a bank, broker or other holder of record, you must present proof of your ownership, such as a bank or brokerage account statement, to be admitted to the meeting. All stockholders must also present a form of personal identification in order to be admitted to the meeting.

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**II. PROPOSAL I: ELECTION OF DIRECTORS**

Under the Company's restated certificate of incorporation, the number of directors shall be fixed by the Board of Directors in the manner provided in the Company's bylaws. Under the Company's restated bylaws, subject to the rights of the holders of any series of preferred stock, the number of directors of the Company may be fixed or changed from time to time by resolution of a majority of the Board of Directors; provided the number shall be no less than three and no more than fifteen, or, if the number is not fixed, the number shall be ten. Currently, we have authorized a thirteen member Board of Directors. Under the Company's restated bylaws, the Directors are divided into three classes, Class I, Class II and Class III, each class to be as nearly equal in number as possible. The term of office of each director shall be until the third Annual Meeting following his or her election and until the election and qualification of his or her successor.

The Nominating and Corporate Governance Committee of the Board of Directors has nominated the Class I directors, David W. Benfer and Dr. Eric N. Prystowsky, to serve as directors until the 2011 Annual Meeting of Stockholders. In March 2008, two of our current Class I directors, Dr. Abhi Acharya and Dr. Gregory N. Johnson, advised us that they had decided not to stand for re-election as Class I directors when their terms expire at the 2008 Annual Meeting. As a result, the Board has recommended fewer nominees for the Class I directorships than have currently been fixed by the Board under our bylaws. The Board of Directors will consider whether to fill the current vacancies and will work with the Nominating and Corporate Governance Committee to identify one or more suitable candidates for such positions, and may consider reducing the size of the Board of Directors to eliminate one or more of the vacancies. Certain information with respect to the nominees for election and the other directors whose terms of office as directors will continue after the Annual Meeting of Stockholders is set forth under the heading "Directors and Officers" below. Proxies cannot be voted for a greater number of persons than the number of nominees named in each Class.

The Board of Directors does not contemplate that either of the nominees will be unable to stand for election, but should any nominee become unable to serve or for good cause will not serve, all proxies (except proxies marked to the contrary) will be voted for the election of a substitute nominee as our Board may recommend.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF THE NAMED NOMINEES AS DIRECTORS.

**Table of Contents****III. DIRECTORS AND EXECUTIVE OFFICERS**

Set forth below is the name, age, position and a brief account of the business experience of each of the executive officers, continuing directors, nominees and key employees of the Company. There are no family relationships between any of our directors and executive officers.

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Bevil J. Hogg	59	Chief Executive Officer, Director
Michael P. Kaminski	48	President and Chief Operating Officer
James M. Stolze	64	Chief Financial Officer and Vice President
Douglas M. Bruce	50	Senior Vice President, Research & Development
Melissa C. Walker	51	Senior Vice President, Regulatory, Quality, and Compliance
Kevin T. Shifrin	42	Senior Vice President, Marketing and Business Development
Fred A. Middleton	58	Chairman of the Board of Directors
Christopher Alafi, Ph.D.	44	Director
David W. Benfer	61	Director
Ralph G. Dacey, Jr., M.D.	59	Director
William M. Kelley	72	Director
Abhijeet J. Lele	42	Director
Robert J. Messey	62	Director
William C. Mills III	52	Director
Eric N. Prystowsky, M.D.	60	Director

*Class I Director (terms expiring at the 2008 Annual Meeting; nominees for reelection to the Board at the 2008 Meeting)*

*David W. Benfer* has served as a director since February 2005. Since 1999, Mr. Benfer has served as President and Chief Executive Officer of Saint Raphael Healthcare System and the Hospital of Saint Raphael, New Haven, Connecticut. Previously, he was the President and Chief Executive Officer of the Provena-Saint Joseph/Morris Health Network in Joliet, Illinois from 1992 to 1999. Mr. Benfer served as Senior Vice President for Hospital and Urban Affairs for the Henry Ford Health System in Detroit and Chief Executive Officer of the Henry Ford Hospital from 1985 to 1992. He served as the Chairman of the American College of Healthcare Executives (ACHE) from 1998 to 1999 and on their Board of Governors from 1992 to 2000. Mr. Benfer was named a Fellow of ACHE in 1981 and serves on the Board of the Catholic Health Association. He earned his B.S.B.A. from Wittenburg University and his M.B.A. from Xavier University.

*Eric N. Prystowsky, M.D.*, was appointed by the Board of Directors as a Class I director in February 2007. Dr. Prystowsky is currently the Director of the Clinical Electrophysiology Laboratory at St. Vincent Hospital in Indianapolis, Indiana, as well as a Consulting Professor of Medicine at Duke University Medical Center. He chairs the American Board of Internal Medicine's test writing committee for the Electrophysiology Board Certification Examination and also serves as Editor-in-Chief of the Journal of Cardiovascular Electrophysiology. Dr. Prystowsky also serves on the Board of Directors of CardioNet, Inc., a publicly held cardiac rhythm services company which trades on the Nasdaq Global Market. From 1979 to 1986, Dr. Prystowsky served as a full time faculty member at the Indiana University School of Medicine, where he was Director of the Electrophysiology Laboratory. He graduated from Pennsylvania State University in 1969 and the Mt. Sinai School of Medicine in 1973. Dr. Prystowsky completed his internal medicine training at Mt. Sinai Hospital, in New York City, and his training in cardiology and clinical electrophysiology at Duke University Medical Center.

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### ***Class II Directors (terms expiring at the 2009 Annual Meeting)***

*Christopher Alafi, Ph.D.*, has served as a director since August 2000. Dr. Alafi has been a General Partner of Alafi Capital Company, LLC, a venture capital firm, since 1995. He was previously a Physiology and Anatomy teacher at Santa Monica College, a visiting scholar at Stanford University (Chemistry Department) and a researcher at DNAX. Dr. Alafi received a B.A. in Biology from Pomona College and a D.Phil. in Biochemistry from the University of Oxford.

*Ralph G. Dacey, Jr., M.D.*, has served as a director since March 2003. Dr. Dacey has been the Chairman of Neurosurgery at Washington University in St. Louis since 1989. Prior to joining Washington University, he was an Assistant Professor of Neurological Surgery at the University of Washington and a Professor and Chief of the Division of Neurosurgery at the University of North Carolina at Chapel Hill. Dr. Dacey received his B.A. from Harvard University and his M.D. from the University of Virginia, School of Medicine. He has served as the Secretary of the American Board of Neurological Surgeons and is a voting member of the American Board of Medical Specialties. Dr. Dacey is also the Chairman of our Scientific Advisory Board and served as Principal Investigator of our first Human Clinical Trial (frontal lobe biopsy).

*Abhijeet J. Lele* has served as a director since April 2004. Mr. Lele is a General Partner of EGS Healthcare Capital Partners, a venture capital firm based in Rowayton, Connecticut, focusing on investments in medical device, biopharmaceutical and specialty pharmaceutical companies. He joined EGS in 1998, after spending four years in the health care practice of McKinsey & Company. Before McKinsey, Mr. Lele held operating positions with Lederle Laboratories, Progenics Pharmaceuticals and Clontech Laboratories. He is currently a director of Medarex, Inc., EP MedSystems, Inc. and CryoCath Technologies, Inc. all of which are publicly traded companies and of OptiScan Biomedical and Ekos Corporation, both of which are privately held. Mr. Lele received his M.A. in molecular biology from Cambridge University and his M.B.A. with distinction from Cornell University.

*Robert J. Messey* has served as a director since May 2005. Mr. Messey has served as the Senior Vice President and Chief Financial Officer of Arch Coal, Inc. since December 2000. Prior to joining Arch Coal, he served as the Vice President of Financial Services of Jacobs Engineering Group, Inc. from 1999 to 2000 and as Senior Vice President and Chief Financial Officer of Sverdrup Corporation from 1992-1999. Mr. Messey was an audit partner at Ernst & Young LLP from 1981 to 1992. He currently serves as a director and chairman of the audit committee of Baldor Electric Company, a publicly traded designer and manufacturer of electrical motors and power transmission products. Mr. Messey earned his B.S.B.A. from Washington University.

### ***Class III Directors (terms expiring at the 2010 Annual Meeting)***

*Bevil J. Hogg* has served as our Chief Executive Officer and a director since June 1997. Prior to February 2007, he also served as our President; Mr. Hogg retired from that position concurrent with the appointment of Michael Kaminski, our Chief Operating Officer, to President and Chief Operating Officer. From 1994 through 1996, Mr. Hogg served as President and Chief Executive Officer of Everest & Jennings International Ltd., a manufacturer of wheelchairs and other hospital, home care and nursing home products. Prior to Everest & Jennings, he was a founder or co-founder of three companies, including Trek Bicycle Corporation. Mr. Hogg received a Diplome Superior d Etudes Francaises from the Sorbonne (University of Paris, France).

*Fred A. Middleton* has served as the Chairman of our Board of Directors since June 1990. Mr. Middleton has been a General Partner in Sanderling Ventures since 1987. Prior to that time, he was an independent investor in the biomedical field. From 1984 to 1986, Mr. Middleton was Managing General Partner of Morgan Stanley Ventures. He joined Genentech, Inc. in 1978 and was a part of the management team in the company's early formative period, assisting in developing its strategy and holding a variety of roles including Vice Presidencies of Finance, Administration, and Corporate Development, and Chief Financial Officer. Mr. Middleton also served as President of Genentech Development Corporation. Prior to that time, he served as a consultant with McKinsey & Company and as a Vice President of Chase Manhattan Bank. Mr. Middleton serves on the Board of Directors of

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CardioNet, Inc., a publicly held cardiac rhythm services company trading on the Nasdaq Global Market and on the Board of Directors of Faville Inc., a publicly held biopharmaceutical company focused on the development and commercialization of patient-specific immunotherapies for the treatment of cancer and other diseases of the immune system trading on the Nasdaq Global Market. Mr. Middleton holds an M.B.A. from Harvard University and a B.S. degree in Chemistry from the Massachusetts Institute of Technology.

*William M. Kelley* has served as a director since January 2003. Mr. Kelley has served as the Chairman Emeritus of Hill-Rom Company since July 2005 and prior to that time held the position of Chairman since 1995. He also currently serves as President of Advisors to Healthcare Suppliers, a healthcare and health services consulting firm. While at Hill-Rom, Mr. Kelley also served as President and CEO from 1992 to 1995, Sr. Vice President, Sales and Operations from 1989 to 1992 and Sr. Vice President, Sales and Marketing from 1980 to 1989. He currently serves on the board of privately held Barton Medical Corporation and the advisory boards of Emmi Solutions, LLC and American Healthcare Solutions. He has been honored numerous times for his contributions to the healthcare industry including as an Honorary Fellow of the American College of Health Care Executives. He was educated at Hanover College and George Washington University.

*William C. Mills, III* has served as a director since June 2000. In August 2004, Mr. Mills became a managing member of a new management company being formed by EGS Healthcare Capital Partners to manage EGS Private Healthcare Partnership III. Before joining EGS, Mr. Mills was a Partner in the Boston office of Advent International, a venture capital firm, for five years. At Advent, he was co-responsible for healthcare venture capital investments and focused on investments in the medical technology and biopharmaceutical sectors. He has over 27 years of venture capital experience. Before joining Advent, Mr. Mills spent over 11 years with the Venture Capital Fund of New England where he was a General Partner. Prior to that, he spent seven years at PaineWebber Ventures/Ampersand Ventures as Managing General Partner. Currently, he is a member of the Board of Managers of Ascension Health Ventures. Mr. Mills received his A.B. in Chemistry, cum laude, from Princeton University, his S.M. in Chemistry from the Massachusetts Institute of Technology and his M.S. in Management from MIT's Sloan School of Management.

### ***Executive Officers***

*Michael P. Kaminski* has served as our Chief Operating Officer since he joined the Company in April 2002. Mr. Kaminski was named President in February 2007, and continues to retain the title Chief Operating Officer. Prior to joining the Company, Mr. Kaminski spent nearly 20 years with Hill-Rom Company (Hillenbrand Industries). In his last position with Hill-Rom, Mr. Kaminski served as Senior Vice President of North American Sales and Service. Prior to that, he served as General Manager of the Acute Care Hospital Division of Hill-Rom. Mr. Kaminski earned an M.B.A. from Xavier University and a B.S. in Marketing from Indiana University.

*James M. Stolze* has served as our Vice President and Chief Financial Officer since he joined the Company in May 2004. Prior to joining the Company, Mr. Stolze spent eight years as Executive Vice President and Chief Financial Officer of MEMC Electronic Materials, Inc., from 1995 to 2003. Prior to MEMC, Mr. Stolze was an audit partner with KPMG LLP. Mr. Stolze currently sits on the board of directors and serves as the chairman of the audit committee of ESCO Technologies, Inc., a public company listed on the New York Stock Exchange. Mr. Stolze earned an M.B.A. from the University of Michigan and a B.S. in Mechanical Engineering from the University of Notre Dame and is a certified public accountant.

*Douglas M. Bruce* has served as our Senior Vice President, Research & Development since he joined the Company in May 2001. Prior to joining the Company, Mr. Bruce was Vice President, Product Development and Marketing, for Intuitive Surgical, a developer and manufacturer of computer-enhanced minimally invasive surgery systems, from 1997 to 2001. Prior to Intuitive Surgical, Mr. Bruce was a Vice President of Engineering at Acuson Corp, a manufacturer of diagnostic ultrasound systems, and has held positions in mechanical, process and manufacturing engineering at Tandon Corp, ISS Sperry Univac and IBM. Mr. Bruce received a M.S. in Mechanical Engineering from Santa Clara University and a B.S. in Mechanical Engineering from the University of California at Berkeley.

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*Melissa C. Walker* has served as our Senior Vice President, Regulatory, Quality, and Compliance since March 2006. From 2005 to March 2006 she served as our Vice President, Regulatory Affairs and Quality Systems, and, since joining the Company in 2001 to 2005 she served as our Vice President Regulatory, Quality, and Clinical Affairs. Prior to joining the Company, Ms. Walker led the global regulatory team at Bausch & Lomb Surgical, Inc., a subsidiary of Bausch & Lomb, Inc. and a leading manufacturer of surgical instruments for the eye, from 1997 to 2000. Prior to Bausch & Lomb Surgical, Inc., Ms. Walker was Director of Regulatory Affairs at Ethicon Endo-Surgery, Inc., a Johnson & Johnson Company and a recognized leader in the manufacture of surgical instruments used for minimally invasive surgery, from 1992 to 1997. Ms. Walker served on the board of directors for the Regulatory Affairs Professionals Society from 1997 to 2002 and was formerly the board chairman. Ms. Walker received a M.S. degree in Zoology and a B.S. in Biology from East Texas State University.

*Kevin T. Shifrin* joined Stereotaxis in March 2008 as our Senior Vice President, Marketing and Business Development. Prior to joining the Company, Mr. Shifrin spent nearly 14 years in various sales, marketing and new product development positions with C.R. Bard, Inc., most recently as the Vice President, Global Marketing of Bard Peripheral Vascular Division since 2002. Prior to joining C.R. Bard, Mr. Shifrin was a consultant for Frank Lynn & Associates. Mr. Shifrin was graduated from the University of Chicago, Graduate School of Business with an M.B.A. in Marketing and from the University of Southern California with a B.S. with honors in Public Administration.

## **Corporate Governance**

Our Board of Directors has determined that each of our directors, other than Mr. Hogg, and each member of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee is independent under the rules of the Nasdaq Global Market. As a result, our Board currently has a majority of Independent Directors consistent with the rules of the Nasdaq Global Market. Our Independent Directors have regularly scheduled meetings at which only the Independent Directors are present.

Our Board of Directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee and adopted charters for each of these Committees. We believe that the composition of each of these Committees meets the criteria for independence under, and the functioning of these Committees complies with, the applicable requirements of, the current rules and regulations of the Nasdaq Global Market and the Securities and Exchange Commission ( SEC ).

## **Board Meetings And Committees**

During fiscal year 2007, the Board of Directors met five times. During fiscal year 2007, all incumbent Directors attended 75% or more of the aggregate meetings of the Board and of the Board Committees on which they served during the period they held office. Directors are encouraged, but not required, to attend our Annual Meetings of Stockholders.

## **Audit Committee**

Our Audit Committee was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, and currently consists of Messrs. Messey, Mills and Benfer, all of whom qualify as Independent Directors and as Audit Committee members under the Nasdaq Global Market rules. Mr. Mills serves as the chair of the Audit Committee, and Mr. Messey qualifies as an Audit Committee Financial Expert under SEC rules and regulations. Our Board of Directors has determined that each of our current Audit Committee members is financially sophisticated as set forth in Rule 4350(d)(2)(A) of the Nasdaq Global Market.

The Audit Committee assists our Board of Directors in its oversight of:

the integrity of our financial statements;

our accounting and financial reporting process, including our internal controls;

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our compliance with legal and regulatory requirements;

the independent registered public accountants' qualifications and independence; and

the performance of our independent registered public accountants.

The Audit Committee has direct responsibility for the appointment, compensation, retention and oversight of our independent registered public accountants. In addition, the Audit Committee must approve in advance:

any related-party transaction that creates a conflict of interest situation;

all audit services; and

all non-audit services, except for de minimis non-audit services, provided the Audit Committee has approved such de minimis services prior to the completion of the audit.

During fiscal year 2007, the Audit Committee met seven times. Our written Audit Committee charter was previously attached as [Exhibit A](#) to our Proxy Statement filed with the SEC on April 14, 2005.

**Compensation Committee**

Our Compensation Committee currently consists of Messrs. Middleton, Johnson and Kelley, each of whom qualifies as Independent Directors under the Nasdaq Global Market rules and as Outside Directors under the Internal Revenue Code of 1986. Mr. Middleton serves as the chair of the Compensation Committee.

The Compensation Committee assists management and our Board of Directors in:

defining an executive compensation policy;

determining the total compensation package for our chief executive officer and other executive officers; and

administering each of our equity-based compensation plans, including our 1994 Stock Option Plan, our 2002 Stock Incentive Plan, our 2002 Non-Employee Directors' Stock Plan and our 2004 Employee Stock Purchase Plan.

During fiscal year 2007, the Compensation Committee met four times. Our written Compensation Committee charter was previously attached as [Exhibit B](#) to our Proxy Statement filed with the SEC on April 14, 2005.

**Nominating and Corporate Governance Committee**

Our Nominating and Corporate Governance Committee currently consists of Messrs. Mills, Acharya and Lele, each of whom qualify as Independent Directors under the Nasdaq Global Market rules. Mr. Mills serves as chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee assists the Board of Directors in:



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identifying and evaluating individuals qualified to become Board members;

reviewing director nominees received from stockholders;

selecting director nominees for submission to the stockholders at our Annual Meeting; and

selecting director candidates to fill any vacancies on the Board of Directors.

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The Nominating and Corporate Governance Committee is also responsible for developing and recommending to the Board of Directors a set of corporate governance guidelines and principles applicable to us.

During fiscal year 2007, the Nominating and Corporate Governance Committee met two times. Our written Nominating and Corporate Governance Committee charter was amended on May 24, 2007 and is attached as Exhibit A to this proxy statement.

## **Director Nominations**

Our restated bylaws provide that stockholders seeking to bring business before an Annual Meeting of Stockholders, or to nominate candidates for election as Directors at an Annual Meeting of Stockholders, must provide timely notice in writing. To be timely, a stockholder's notice must be delivered to or mailed and received at our principal executive offices not more than 120 days or less than 90 days prior to the anniversary date of the immediately preceding Annual Meeting of Stockholders. However, in the event that the Annual Meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder in order to be timely must be received not later than the close of business on the 10th day following the date on which notice of the date of the Annual Meeting was mailed to stockholders or made public, whichever first occurs. Our restated bylaws specify requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an Annual Meeting of Stockholders or from making nominations for directors at an Annual Meeting of Stockholders.

Any stockholder wishing to submit a candidate for consideration should send the following information to the Corporate Secretary, Stereotaxis, Inc., 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108:

Stockholder's name, number of shares owned, length of period held, and proof of ownership;

Name, age, business and residential address of candidate;

A detailed resume describing among other things the candidate's educational background, occupation, employment history, and material outside commitments (e.g., memberships on other boards and committees, charitable foundations);

A supporting statement which describes the candidate's reasons for seeking election to the Board, and documents his/her ability to satisfy the director qualifications described herein;

Any information relating to the candidate that is required to be disclosed in the solicitation of proxies for election of director;

The class and number of shares of our capital stock that are beneficially owned by the candidate;

A description of any arrangements or understandings between the stockholder and the candidate; and

A signed statement from the candidate, confirming his/her willingness to serve on the Board.

Our Corporate Secretary will promptly forward such materials to the chair of our Nominating and Corporate Governance Committee and our Chairman of the Board. Our Corporate Secretary will also maintain copies of such materials for future reference by the Committee when filling Board positions. Stockholders may submit potential director candidates at any time pursuant to these procedures. The Committee will consider such candidates if a vacancy arises and at such other appropriate times. Notwithstanding the foregoing, the Committee is not obligated to review any candidate for which the required information is not provided by the time set forth in our restated bylaws for the nomination of director candidates by a stockholder that is not approved by the Committee or the Board. See also General Information Stockholder Proposals.



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### **Stockholder Communications Policy**

Any security holder wishing to send communications to our Board should send the written communication and the following information to our Corporate Secretary, Stereotaxis, Inc., 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108:

Security holder's name, number of shares owned, length of period held, and proof of ownership;

Name, age, business and residential address of security holder; and

Any individual Director or Committee to whom the security holder would like to have the written statement and other information sent.

The Corporate Secretary will forward the information to the Chairman of the Board, if addressed to the full Board, or to the specific Director to which the communication is addressed.

### **Code of Business Conduct and Ethics**

Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our Directors, officers and employees effective August 1, 2004. Stockholders may download a free copy of our Code of Business Conduct and Ethics from our website ([www.stereotaxis.com](http://www.stereotaxis.com)) or by request of our Chief Financial Officer as follows:

Stereotaxis, Inc.

Attention: James M. Stolze

4320 Forest Park Avenue, Suite 100

St. Louis, Missouri 63108

314-678-6100

To the extent required by law or the rules of the Nasdaq Global Market, any amendments to, or waivers from, any provision of the Code of Business Conduct and Ethics will be promptly disclosed publicly. To the extent permitted by such requirements, we intend to make such public disclosure by posting the relevant material on our website ([www.stereotaxis.com](http://www.stereotaxis.com)) in accordance with SEC rules. Information on our website does not constitute part of this proxy statement.

## **IV. DIRECTOR AND EXECUTIVE COMPENSATION**

### **Board Processes And Procedures For The Consideration And Determination Of Executive And Director Compensation**

In accordance with the Compensation Committee charter, the Compensation Committee is responsible for establishing and reviewing the overall management compensation philosophy and policy, and administering the executive and Director compensation programs. As part of its duties, the Compensation Committee assists management and the Board of Directors in defining an executive compensation policy that supports overall business strategy and objectives, attracts and retains key executives, links compensation with business objectives and organization performance in good and bad times, and provides competitive compensation opportunities. The Committee has the authority to determine the total compensation package, including salaries, bonuses, stock options, stock awards, benefits and other compensation arrangements, for the Chief Executive Officer and other executive officers of the company. As part of that process the Committee reviews and approves the performance objectives of the Chief Executive Officer and other executives and evaluates their performance to determine whether such objectives have been achieved. Although the charter delegates this responsibility to the Compensation Committee, the Committee has historically chosen to consult with the Board of Directors on the compensation of the Chief Executive Officer and the other key executives because the Committee believes

that the performance and compensation of that group is so critical to our success that Board involvement in such decision is appropriate.

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The Compensation Committee seeks advice from consultants with respect to compensation policies and programs for Named Executive Officers, as appropriate. A more detailed discussion of the Compensation Committee's past and current consulting relationships is described in the Compensation Discussion and Analysis section of this proxy statement.

The Compensation Committee also leverages our management and human resources professionals to assist the Committee in the timely and cost-effective fulfillment of its duties. The Committee solicits input from the Chief Executive Officer and human resources professionals regarding compensation policies and levels.

Following the completion of our fiscal year, typically in February, the Compensation Committee meets to conduct its annual review of the Company's compensation programs and packages. The Compensation Committee does not permit members of the Company's management to materially participate in the determination of their particular compensation, nor does the Committee permit members of management, including the Chief Executive Officer, to be physically present for those portions of Committee meetings during which the particular member of the management team's performance and compensation are reviewed and determined. However, these protocols do not prohibit members of management and the Chief Executive Officer from participating in, and being physically present, when compensation matters affecting Company employees (such as the Company's annual bonus incentive plan) are discussed and determined. The Compensation Committee believes that it is crucial for members of the Company's management to be materially involved in, and manage the details associated with, the compensation programs and policies of the Company in order for the management to explain and implement the Committee's decisions with respect to executive and employee compensation.

The Board of Directors has delegated to the Nominating and Corporate Governance Committee responsibility for overseeing the structure, operations, and composition of the Board of Directors and its Committees. However, the Nominating and Corporate Governance Committee does not have a direct role in the determination of Board member compensation. Rather, the Compensation Committee is tasked in its charter with making changes to the outside directors' compensation program in respect of competitiveness and plan design. The Compensation Committee leverages independent consultants and the Company's human resources professionals and management, as appropriate, to assist the Compensation Committee in making recommendations to the Board with respect to director compensation. The Board did not increase its compensation during 2007, but the Board intends to periodically review Board compensation from time to time.

**DIRECTOR COMPENSATION**

**Director Compensation Policies**

In March 2002, we adopted the 2002 Non-Employee Directors' Stock Option Plan to provide for the automatic grant of options to purchase shares of common stock to our non-employee directors. Under this Plan, at each annual stockholder meeting, all non-employee directors receive an annual option to purchase 7,500 shares of common stock, or 15,000 in the case of the chairman. Newly elected directors receive an initial option to purchase 15,000 shares of common stock which vest over a two-year period with 50% vesting after the first year and the remainder vesting monthly thereafter. In addition, the chairman and/or designated financial expert of the Audit Committee receive an annual grant of 5,000 shares and the chairman of the Compensation Committee and the chairman of the Nominating and Corporate Governance Committee receive an annual grant of 2,500 shares. Such options are granted at a price equal to the fair market value of the stock on the date of grant and have a term of 10 years.

In addition, non-employee directors receive cash compensation for their services as Board members. Each non-employee director receives an \$18,000 annual retainer (\$24,000 for the chairman) for Board membership and an additional payment of \$1,500 per in-person Board meeting and \$500 per telephonic Board meeting. Each member of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee receives a \$2,500 annual retainer. The chairman/designated financial expert of the Audit Committee receives a \$7,500 annual retainer and the chairman of the Compensation Committee and the chairman of the Nominating and Corporate Governance Committee each receives a \$5,000 annual retainer in lieu of the member retainer.

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We reimburse our Directors for reasonable out-of-pocket expenses incurred in connection with attendance and participation in Board and Committee meetings.

The following table discloses compensation information of members of our Board of Directors for serving as members of the Company's Board in 2007:

Director	Fees Earned or Paid in Cash (\$)	Option Awards \$(1)	Total (\$)
Fred A. Middleton (2)	35,500	101,952	137,452
Abhi Acharya (3)	26,000	51,232	77,232
Christopher Alafi, Ph.D. (4)	22,000	43,694	65,694
David W. Benfer (5)	27,000	51,232	78,232
Ralph G. Dacey, Jr., M.D. (6)	24,500	43,694	68,194
Bevil J. Hogg (7)			
Gregory R. Johnson, Ph.D. (8)	25,500	43,694	69,194
William M. Kelley (9)	26,000	43,694	69,694
Abhijeet J. Lele (10)	27,000	43,694	70,694
Robert J. Messey (11)	32,000	88,730	120,730
William C. Mills III (12)	37,000	87,389	124,389
Eric N. Prystowsky, M.D. (13)	23,500	62,571	86,071

(1) Amount represents the SFAS 123(R) expense recognized for financial reporting purposes for options granted in 2007 and prior years.

(2) 77,500 options were outstanding as of December 31, 2007, 60,000 of which were exercisable as of such date.

(3) 37,500 options were outstanding as of December 31, 2007, 30,000 of which were exercisable as of such date.

(4) 35,000 options were outstanding as of December 31, 2007, 27,500 of which were exercisable as of such date.

(5) 37,500 options were outstanding as of December 31, 2007, 30,000 of which were exercisable as of such date.

(6) 35,000 options were outstanding as of December 31, 2007, 27,500 of which were exercisable as of such date.

(7) As a member of management, Bevil J. Hogg, the Company's Chief Executive Officer, did not receive compensation for his services as a Director in 2007. The compensation received by Mr. Hogg as an employee of the Company is shown in the Summary Compensation Table below.

(8) 35,000 options were outstanding as of December 31, 2007, 27,500 of which were exercisable as of such date.

(9) 69,027 options were outstanding as of December 31, 2007, 61,527 of which were exercisable as of such date.

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- (10) 30,833 options were outstanding as of December 31, 2007, 23,333 of which were exercisable as of such date.
- (11) 45,000 options were outstanding as of December 31, 2007, 32,500 of which were exercisable as of such date.
- (12) 57,500 options were outstanding as of December 31, 2007, 42,500 of which were exercisable as of such date.
- (13) 22,500 options were outstanding as of December 31, 2007, none of which were exercisable as of such date. Excludes payments of \$131,013 in 2007 under a separate consulting agreement with Dr. Prystowsky. See Certain Relationships and Related Party Transactions Arrangements with Dr. Prystowsky on page 36 below.



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### **Compensation Discussion And Analysis**

#### ***Overview of Compensation Program***

The following Compensation Discussion and Analysis describes our overall compensation philosophy and the primary components of our compensation program. Furthermore, the Compensation Discussion and Analysis explains the process by which the Compensation Committee determined the 2007 compensation for all Named Executive Officers.

#### ***Compensation Philosophy***

The fundamental objectives of our compensation program are to attract and retain highly qualified executive officers, motivate these executive officers to materially contribute to our long-term business success, and align the interests of our executive officers and stockholders by rewarding our executives for individual and corporate performance based on targets established by the Committee.

We believe that achievement of these compensation program objectives enhances long-term stockholder value. When designing compensation packages to reflect these objectives, the Committee is guided by the following four principles:

*Alignment with stockholder interests:* Compensation should be tied, in part, to our stock performance through the granting of equity awards, which in turn aligns the interests of executive officers with those of our stockholders.

*Recognition for business performance:* Compensation should correlate in large part with our overall business, operational and financial performance.

*Accountability for individual performance:* Compensation should partially depend on the individual executive's performance, in order to motivate and acknowledge the key contributors to our success.

*Competition:* Compensation should generally reflect the competitive marketplace and be consistent with that of other well-managed companies in our peer group.

In implementing this compensation philosophy, the Committee takes into account the compensation amounts from the previous years for each of the Named Executive Officers, internal compensation equity among the Named Executive Officers and compensation of executive officers in similar positions at selected companies in the medical device industry. In particular, the Committee believes that the Named Executives should be paid at competitive levels of compensation that best reflect their individual responsibilities and contributions to the Company, while providing incentives to achieve our business and financial objectives. Market data from companies in our peer group (discussed in more detail below) is utilized by the Committee to assist them in their deliberations.

In determining the amount and mix of compensation elements and whether each element provides the correct incentives and rewards for performance consistent with our short and long-term goals and objectives, the Committee relies both on relevant market data and its judgment about each individual's performance to arrive at compensatory decisions for its Named Executive Officers.

#### ***2007 Compensation Determination Process***

As in prior years, during 2007 the Committee engaged in its annual review of our executive compensation with the goal of ensuring the appropriate combination of fixed and variable compensation linked to individual and corporate performance. In the course of this review, the Committee considered the advice and input of the

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Company's management in the manner described on page 10 above under the section entitled "Board Processes and Procedures for the Consideration and Determination of the Executive Officer and Director Compensation."

The Committee also retained the services of Towers Perrin in early 2007 to provide peer group market data in support of an overall review of all components of compensation for the Named Executive Officers, including base salary, annual cash incentive, and long term incentives. The survey data received from Towers Perrin was based on a mix of sixteen medical device companies with market capitalization ranging from less than \$100 million to slightly over \$1 billion. This data provided the basis for 2007 compensation decisions for the Named Executive Officers.

The Committee intends to review and update this list and the corresponding market data on a periodic basis. The Committee generally set compensation for the Named Executive Officers at the 55<sup>th</sup> percentile of compensation paid to similarly situated executives of the companies comprising this compensation peer group, a practice generally known as "benchmarking." However, because the comparative compensation information is just one of the several tools used in setting executive compensation, the Committee has discretion in determining the nature and extent of its use. As a result, variations to this objective may occur as dictated by the experience level of the individual and market factors.

***Executive Compensation Components***

For the fiscal year ended December 31, 2007, the principal components of compensation for Named Executive Officers were:

base salary;

annual bonus program;

long-term incentive awards; and

other benefits.

**Base Salary.** The Committee reviews base salaries annually and considers the individual performance of the officer, the competitive forces in the industry, the responsibilities of the individual and his or her future potential. Thus, an individual Named Executive Officer might receive increases related to merit and for any market adjustment deemed necessary.

In 2007 the Committee awarded the Named Executive Officers (with the exception of Mr. Kaminski, its Chief Operating Officer) base salary adjustments consistent with the overall salary adjustment for the Company's employee base. Mr. Kaminski was promoted from Chief Operating Officer to President and Chief Operating Officer in February 2007 and, in recognition of that promotion, was awarded a 14% base salary adjustment.

Following its review of 2007 performance in February 2008, no adjustments were made in the 2008 base salaries of any of the Named Executive Officers.

**Annual Bonus Program.** The Committee continued the use of a cash bonus plan in 2007 for the Named Executive Officers, granting potential cash bonuses pursuant to the 2007 bonus incentive plan only if the Company achieved certain identified financial performance, product development and other strategic measures. Thus, the Committee attempted to align the Named Executive Officers' 2007 cash bonus with the interests of our stockholders.

The annual incentive maximum represents 50% of total base cash compensation for the Chief Executive Officer and President and Chief Operating Officer and 30% for the remaining Named Executive Officers, which excludes items such as stock option exercises, stock appreciation rights ("SARs") and restricted stock vesting and other compensation items. Generally, payment of the incentive bonus is based on performance of the Company against the pre-established measures, as determined by the Committee. In February 2007, the Committee established the bonus plan objectives for the Named Executive Officers relating to the following items: revenue,



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new orders, clinical utilization, product development, regulatory accomplishments, and clinical validation. In addition, it awarded Mr. Kaminski a promotion recognition bonus of \$50,000 for his promotion to President and Chief Operating Officer.

Following a review in February 2008, the Committee determined that the 2007 performance objectives were not substantially achieved by the Named Executive Officers as a group, and accordingly the Committee determined there would be no bonus payout under the annual bonus program for 2007.

In February 2007, the Committee adopted a quarterly performance cash bonus plan for the Chief Executive Officer and the President and Chief Operating Officer. The maximum award under the plan was \$12,500 per quarter for each of the two individuals and was subject to achievement of goals related to revenues, orders, and gross margin. Performance objectives for the first quarter of 2007 were achieved and payments made under the plan. There were no payments made related to the remainder of 2007.

*Bonus plan for 2008:* In February 2008, the Committee determined that in addition to its annual bonus program, an expanded quarterly bonus opportunity for 2008 would provide incremental incentive and focus to achieve critical key deliverables for the 2008 performance year. The Committee adopted a quarterly bonus plan for an additional, but limited, number of participants (including the Named Executive Officers listed below) who will receive quarterly bonuses if the Company meets certain quarterly targets with respect to orders, revenue, gross margin percentage and operating expenses. The Named Executive Officers are eligible to receive bonuses under the 2008 Plan as follows:

Name	Potential Quarterly Award (\$)
Bevil J. Hogg	25,000
Michael P. Kaminski	25,000
James M. Stolze	15,000
Douglas M. Bruce	15,000
Melissa C. Walker	15,000

*Long-Term Equity Incentive Compensation.* The objective of the Company's long-term equity incentive program is to provide a longer-term retention incentive for the Named Executive Officers and to align their interests directly with those of our stockholders by way of stock ownership.

Under the 2002 Stock Incentive Plan, the Committee has the discretion to determine whether equity awards will be granted to Named Executive Officers and if so, the number of shares subject to each award. The 2002 Stock Incentive Plan allows the Committee to grant the following types of equity awards, in its discretion: options, stock appreciation rights, cash-based awards or other stock-based awards, such as common stock, restricted stock and other awards valued in whole or in part by reference to the fair market value of the stock. In most instances, these long-term grants vest on a multi-year basis.

The Committee meets in February of every year to determine the recipients of annual long-term incentive awards and to grant such awards by formal action. The practice of granting long-term incentive awards in February by Committee action applies uniformly to the Named Executive Officers and other employees of the Company. In addition, equity awards, either in the form of time based restricted shares, stock appreciation rights, or stock options are granted to all employees upon acceptance of employment with the Company. Grants of awards to new employees are approved by the Compensation Committee at its quarterly meeting following the initiation of employment of the employee, and on occasion, in advance of initiation of employment, but effective on the date of initiation of employment. In addition, the Committee has the discretion to make grants whenever it deems it appropriate in the best interests of the Company. The Company does not have any program, plan or practice in place to time equity award grants with the release of material, non-public information and does not release such information for the purpose of affecting the value of executive compensation.

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Since the Company's base salaries are always paid in cash, and the 2007 bonus incentive plan described above is a cash plan, the Committee determined that some form of option, stock appreciation rights or other stock-based award would be appropriate for the long-term incentive component of executive officer compensation for 2007. Historically, the Company had granted stock-based compensation in the form of stock options. However, following our initial public offering in 2004, the Compensation Committee has granted stock-based compensation in the form of restricted stock, stock appreciation rights, and stock options.

The Committee considered these three choices of equity in 2007. For the 2007 long-term incentive component of executive compensation, the Committee granted stock options to the Named Executive Officers.

In establishing the size of the 2007 equity award pool, the Committee considered the amount of stock and options outstanding, and the potentially dilutive effect on stockholders, in addition to the overall compensation policy of the Company to place emphasis on incentive compensation over base salaries. The Committee also considered the results of the 2007 Towers Perrin report that included comparisons of selected executive officers' awards in the sixteen companies discussed above. Mr. Kaminski was granted 160,000 stock options in recognition of his promotion to President and Chief Operating Officer. The numbers of stock options granted to the remaining Named Executive Officers in February 2007 are described in the table on page 20.

Pursuant to Proposal II set forth below, an increase in the number of shares available for issuance under our 2002 Stock Incentive Plan is being considered at the Annual Meeting.

*Other Benefits*

*Health care and other Insurance Programs.* All Company employees, including the Named Executive Officers, are eligible to participate in medical, dental, short and long-term disability and life insurance plans. The terms of such benefits for the Company's Named Executive Officers are the same as those for all Company employees.

*401(k).* The Company offers all eligible employees the opportunity to participate in a 401(k) plan to which the Company matches employee contributions dollar for dollar up to 3% of the employee's salary during the employee's period of participation. For the fiscal year 2007, the Company expensed \$605,063 related to the plan.

*Employee Stock Purchase Plan.* All of our employees, including our officers, who do not own 5% or more of our outstanding common stock, who are customarily employed for at least 20 hours per week and for more than five months in any calendar year are eligible to participate in our tax-qualified employee stock purchase plan. This plan allows participants to buy Company common stock at 85% of market price with up to 15% of their salaries and incentives (subject to certain limits), with the objective of allowing employees to profit when the value of the Company increases over time.

***Determination of 2007 Chief Executive Officer Compensation***

Mr. Hogg's salary is comprised of a base salary plus an annual incentive bonus payable based on the achievement of corporate objectives set by the Compensation Committee and long-term incentive compensation in the form of stock options. To determine Mr. Hogg's 2007 compensation package, the Compensation Committee considered his performance, competitive compensation data from similar companies within the medical device industry as well as the other criteria indicated above. In February 2007, the Compensation Committee increased Mr. Hogg's base salary to \$400,000 and granted him 160,000 stock options. The Committee also confirmed the performance objectives for his 2007 performance bonus. In February 2008, the Compensation Committee determined 2007 performance objectives were not substantially achieved, and thus no annual bonus was paid to Mr. Hogg for the 2007 performance year.

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**Federal Income Tax Considerations**

*Section 162(m)*

Section 162(m) of the Internal Revenue Code limits the tax deduction allowable for executive compensation to \$1.0 million per year for certain executive officers unless such compensation is performance based. As the cash compensation paid to our executive officers is below \$1.0 million and the Compensation Committee believes that the stock options granted would meet the requirements for performance based compensation, the Company believes that these limitations did not impact the Company in 2007.

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation Committee recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement on Schedule 14A.

Submitted by the Compensation Committee of the Board of Directors.

Fred A. Middleton, Chairman

Gregory R. Johnson

William M. Kelley

The Compensation Committee report and the report of the Audit Committee below will not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement or portions thereof into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference, and will not otherwise be deemed filed under such Acts.

**Compensation Committee Interlocks And Insider Participation**

Mr. Middleton served as a member of our Compensation Committee during our last fiscal year and as our president from December 1996 through June 1997. Otherwise, none of our Compensation Committee members and none of our executive officers have a relationship that would constitute an interlocking relationship with executive officers or directors of another entity or insider participation in compensation decisions.

**Table of Contents****SUMMARY COMPENSATION TABLE**

The following table sets forth information concerning the annual and long-term compensation for all services rendered in all capacities to the company for the fiscal year ended December 31, 2007.

Name and Principal Position	Year	Salary (\$)	Stock Awards \$(1)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
					\$(3)	\$(4)	(\$)
Bevil J. Hogg Chief Executive Officer	2007	398,604	219,416	576,593	12,500	16,396	1,223,509
Michael P. Kaminski President and Chief Operating Officer	2006	383,250	238,785	478,107	71,859	14,728	1,186,729
James M. Stolze Vice President and Chief Financial Officer	2007	341,479	107,123	417,136	12,500	65,713	943,951
Douglas M. Bruce Senior Vice President, Research & Development	2006	302,747	116,330	271,634	56,765	11,943	759,419
Melissa C. Walker Senior Vice President, Regulatory, Quality and Compliance	2007	308,951	95,914	304,541	-	12,771	722,177
	2006	297,413	105,008	255,718	55,765	11,750	725,654
	2007	294,018	68,411	120,008	-	12,201	494,638
	2006	283,211	75,422	102,310	53,102	11,309	525,354
	2007	234,219	58,304	114,610	-	9,811	416,944
	2006	225,621	63,407	78,522	42,304	9,256	419,110

- (1) Includes the dollar amount recognized for financial statement reporting purposes for each fiscal year relating to restricted share grants awarded in such year and in prior years computed in accordance with SFAS 123(R) applying the same valuation model and assumptions applied for financial reporting purposes. Restricted share grants under the 2002 Stock Incentive Plan granted to Named Executive Officers are performance-based and will be forfeited if performance criteria are not achieved by June 15, 2010. Restricted shares granted to employees are valued at the fair market value at the date of grant. See Note 11 of the notes to our consolidated financial statements contained in our 2007 Annual Report on Form 10-K for a discussion of all assumptions made by us in determining the SFAS 123(R) values of our equity awards. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by the Named Executive Officers. There were no restricted shares granted in fiscal 2007 to the Named Executive Officers.
- (2) The amounts represent the dollar amount recognized for stock options and stock appreciation rights for financial statement reporting purposes with respect to the fiscal year in accordance with SFAS 123(R). These amounts may include expense related to options granted in years prior to 2007. See Note 11 of the notes to our consolidated financial statements contained in our 2007 Annual Report on Form 10-K for a discussion of all assumptions made by us in determining the SFAS 123(R) values of our equity awards. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by the Named Executive Officers. Please see the Grants of Plan-Based Awards Table for information on stock options granted in fiscal 2007.
- (3) Represent amounts payable under the applicable fiscal year's annual incentive bonus program. Although amounts for our 2006 annual incentive bonus program were paid in 2007, the relevant performance period for such awards was fiscal year 2006, and is accordingly being reported as compensation for fiscal year 2006. No bonuses were paid under the 2007 annual incentive bonus program. Messrs. Hogg and Kaminski each received payments of \$12,500 under a quarterly bonus plan related to operating performance compared to plan for the first quarter of 2007.
- (4) All Other Compensation represents amounts contributed by us to the executive's 401(k) plan and the payment of group term life insurance premiums. Included in All Other Compensation for 2007 are Company contributions to 401(k) plans as follows: Mr. Hogg, \$14,489, Mr. Kaminski, \$13,823, Mr. Stolze, \$10,941 and Mr. Bruce, \$10,414. In addition, Mr. Kaminski was awarded a bonus of \$50,000 in recognition of his promotion to President in February 2007. No other single amounts exceeded \$10,000 for any individual.





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The following table sets forth certain information with respect to plan-based awards granted to each of our Named Executive Officers during the fiscal year ended December 31, 2007.

**GRANTS OF PLAN-BASED AWARDS**

Named Executive Officer	Grant Date	Target Estimated Future Payouts Under Non-Equity Incentive Plan Awards\$(1)	Target Estimated Future Payouts Under Equity Incentive Plan Awards(#)	All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards (\$/Sh)(3)	Grant Date Fair Value of Option Awards\$(4)
Bevil J. Hogg	2/6/07	250,000	-	160,000	10.24	697,600
Michael P. Kaminski	2/6/07	222,500	-	220,000	10.24	959,200
James M. Stolze	2/6/07	93,000	-	45,000	10.24	196,200
Douglas M. Bruce	2/6/07	88,500	-	25,000	10.24	109,000
Melissa C. Walker	2/6/07	70,500	-	50,000	10.24	218,000

- (1) Constitutes awards that could have been earned under the 2007 annual bonus program, representing 50% of the base salary for Messrs. Hogg and Kaminski and 30% of the base salary of each of Messrs. Stolze and Bruce and Ms. Walker. In addition, the amounts for Messrs. Hogg and Kaminski include a \$50,000 bonus opportunity based on quarterly achievements relative to plan. In February 2008, the Compensation Committee determined that no awards were earned under the annual program. Messrs. Hogg and Kaminski were each awarded \$12,500 in accordance with the quarterly bonus program.
- (2) Constitutes stock options granted in fiscal 2007 under our 2002 Stock Incentive Plan.
- (3) The exercise price of stock subject to options awarded under the plan is the fair market value of the stock on the date of grant. Under the terms of the plan, the fair market value of the stock is the closing sales price of the stock on the date of grant as reported by the Nasdaq Global Market.
- (4) Includes the full grant date fair value of options computed in accordance with SFAS 123(R) applying the same valuation model and assumptions applied for financial reporting purposes. Generally, the full grant date fair value is the amount that the Company would expense in its financial statements over the award vesting schedule. These amounts reflect the Company's accounting expense and do not correspond to the actual value that will be recognized by the Named Executive Officers.

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The following table discloses information regarding outstanding awards under the Company's 2002 Stock Incentive Plan, as amended, as of December 31, 2007.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END (December 31, 2007)**

Named Executive	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date	Equity Incentive Plan Awards; Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards; Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Officer	(#) Exercisable	(#) Unexercisable(1)	(\$)		(#)(2)	\$(3)
Bevil J. Hogg	8,333	-	1.62	11/7/2011		
	55,555	-	1.62	11/7/2011		
	97,222	-	4.75	1/31/2012		
	69,444	-	5.94	5/27/2013		
	47,598	1,013	6.77	1/27/2014		
	40,509	8,102	8.00	8/16/2014		
	57,812	34,688	7.80	6/15/2010		
	35,245	41,655	12.03	2/21/2011		
	-	160,000	10.24	2/7/2012	47,500	580,450
					38,400	469,248
Michael P. Kaminski	79,825	-	4.75	4/17/2012		
	13,888	-	5.94	5/27/2013		
	67,997	1,447	5.94	1/7/2014		
	29,687	17,813	7.80	6/15/2010		
	17,508	20,692	12.03	2/21/2001		
	-	220,000	10.24	2/7/2012	22,500	274,950
					19,100	233,402
James M. Stolze	99,536	11,575	7.02	5/25/2014	22,500	274,950
	23,437	14,063	7.80	6/15/2010	15,900	194,298
	14,575	17,225	12.03	2/22/2011		
	-	45,000	10.24	2/7/2012		

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Douglas M. Bruce	48,611	-	4.75	1/31/2012		
	6,944	-	5.94	5/27/2013		
	10,199	217	6.77	1/27/2013		
	8,680	1,736	8.00	2/25/2012		
	14,062	8,438	7.80	6/15/2010		
	9,670	11,430	12.03	2/21/2011		
	-	25,000	10.24	2/7/2012	17,500	213,850
					10,600	129,532
Melissa. C. Walker	13,888	-	5.94	5/27/2013		
	13,888	-	5.94	11/19/2013		
	10,937	6,563	7.80	6/15/2010		
	9,166	10,834	12.35	2/21/2011		
	-	50,000	10.24	2/7/2012	12,500	152,750
					10,000	122,200

- (1) The amounts appearing in this column represent the total number of options and stock appreciation rights that have not vested as of December 31, 2007. Option grants and SARs vest at the rate of 25% after one year of service from the date of grant, and monthly thereafter, over 36 additional months.
- (2) The amounts appearing in this column represent the total number of performance-based restricted shares granted under our 2002 Stock Incentive Plan which vest if certain revenue, profitability and operating performance goals are achieved. Those goals have not yet been achieved.
- (3) Based on the closing price of \$12.22 for the shares of our common stock on December 31, 2007 (the last business day of fiscal 2007).

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The following table summarizes information regarding the exercise of options and the vesting of stock during the fiscal year ended December 31, 2007.

**OPTION EXERCISES AND STOCK VESTED**

Named Executive Officer	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
	(#)	\$(1)	(#)	(\$)
Bevil J. Hogg	-	-	-	-
Michael P. Kaminski	45,000	328,500	-	-
James M. Stolze	-	-	-	-
Douglas M. Bruce	-	-	-	-
Melissa C. Walker	18,517	134,710	-	-

(1) Values represent the deference between the exercise price of the options and the closing market price of our common stock at exercise.

**Potential Payments Upon Termination or Change in Control**

The award agreements under our 2002 Stock Incentive Plan provide for the acceleration of certain equity awards in the event of a change of control of the company. The provisions under the award agreements are generally applicable to awards granted to all participants in the Plan, including the Named Executive Officers. We have described those provisions generally below. Benefits or payments under other plans and arrangements that are generally available to the company's employees on similar terms are not described.

In addition, we have entered into employment agreements with our Named Executive Officers that provide for a continuation of certain post-employment benefits, to the extent permitted under the applicable employment benefit plan(s). Each of the employment agreements provide for payments at, following, or in connection with a variety of circumstances following the Named Executive Officer's termination of employment or in the event of a change of control of the company.

Following the description of each Named Executive Officer's specific employment agreement, we have quantified, in tabular format, the potential payments and benefits upon termination or a change of control of the company for each of the Named Executive Officers, assuming the Named Executive Officer's employment terminated on December 31, 2007 and, if applicable, based on our closing stock price of \$12.22 on that date. In calculating the value of acceleration of equity awards, the value of unvested options and SARs equals \$12.22 per share minus exercise price for all such options or SARs, and the value of the performance based restricted shares equals \$12.22 per share multiplied by the number of unvested performance based restricted shares.

**Provisions under 2002 Stock Incentive Plan**

Upon a change of control and if the Named Executive Officer's employment is terminated in contemplation of, or within one year after, the change of control (or in the case of restricted stock or SARs, the employee leaves for "good reason"), the award agreements under the 2002 Stock Incentive Plan provide as follows: (1) all unvested stock options and SARs would vest immediately, and all unexercised options and SARs could be exercised for their remaining terms; and (2) all outstanding performance based restricted stock awards vest immediately and become non-forfeitable.

The awards do not generally accelerate in connection with the retirement, resignation or other termination of employment (i.e., voluntary termination, termination for cause or involuntary termination) of any of the participants. In addition, none of the equity awards under the 2002 Stock Incentive Plan accelerate in the event of termination by death or disability, although SARs and options could be exercised for specified periods following such termination events.



**Table of Contents*****Employment Agreements and Quantification of Payments upon Termination or Change of Control***

*Mr. Hogg.* If Mr. Hogg is terminated without cause, he will be paid a salary continuance equal to his base salary for the lesser of (1) the period from the date of his termination of employment until he commences employment with a new employer or (2) 24 months. In addition, 12 months worth of Mr. Hogg's unvested options and SARs will automatically vest. Upon an acquisition or merger where we are not the surviving entity and a change of control occurs, 50% of Mr. Hogg's unvested options and SARs will vest (a single trigger event). If Mr. Hogg is terminated after any such acquisition or merger or is not offered a comparable position in the surviving entity (a double trigger event), he will be paid a salary continuance equal to his base salary for 24 months and 100% of his unvested options, SARs and restricted shares will vest under the terms of the 2002 Stock Incentive Plan.

*Mr. Kaminski.* If Mr. Kaminski is terminated without cause, he will be paid a salary continuance equal to his monthly base salary for the lesser of (1) the period from the date of his termination of employment until he commences employment with a new employer or (2) six months. In addition, if Mr. Kaminski's employment is terminated as a result of, or following, an acquisition or merger where we are not the surviving entity and a change of control occurs, and Mr. Kaminski is not offered a comparable position and salary in the surviving entity, (1) he will be paid salary continuance equal to his monthly base salary for the lesser of (a) the period from the date of his termination of employment until he commences employment with a new employer or (b) six months, and (2) 100% of his unvested options, SARs and restricted shares will vest under the terms of the 2002 Stock Incentive Plan.

*Mr. Stolze.* If Mr. Stolze is terminated without cause, he will be paid salary continuance equal to his monthly base salary for six months. In addition, if Mr. Stolze's employment is terminated in contemplation of or within a year of a change in control of Stereotaxis, 100% of his unvested options, SARs and restricted shares will vest under the terms of the 2002 Stock Incentive Plan.

*Mr. Bruce.* If Mr. Bruce is terminated without cause, or as a result of, or following, an acquisition or merger where we are not the surviving entity and a change of control occurs and he is not offered a comparable position and salary with the surviving entity, or is terminated within one year of such acquisition or merger, he will be paid salary continuance equal to his monthly base salary for six months. In addition, if Mr. Bruce's employment is terminated in contemplation of or within a year of a change in control of Stereotaxis, 100% of his unvested options, SARs and restricted shares will vest under the terms of the 2002 Stock Incentive Plan.

*Ms. Walker.* If Ms. Walker is terminated without cause, she will be paid a salary continuance equal to her monthly base salary for three months. In addition, if Ms. Walker's employment is terminated as a result of, or following, an acquisition or merger where we are not the surviving entity and a change of control occurs, and she is not offered a comparable position and salary in the surviving entity, (1) she will be paid salary continuance equal to her monthly base salary for three months and (2) 100% of her unvested options will vest under the terms of the 2002 Stock Incentive Plan.

Based on a hypothetical termination date of December 31, 2007, the severance benefits for the Named Executive Officers would have been as follows:

Named Executive Officer	Termination without Cause	Change of control event (single trigger)	Involuntary
			termination following
			change of control (\$)
Bevil J. Hogg	1,090,776	258,873	2,367,445
Michael P. Kaminski	172,500	-	1,208,204
James M. Stolze	155,000	-	683,969
Douglas M. Bruce	147,500	-	588,358
Melissa C. Walker	58,750	-	461,708

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The foregoing payments with respect to each of the above Named Executive Officers include salary continuation payments and the value of accelerated vesting of equity awards as described above in accordance with the terms of their respective employment agreements.

We do not currently maintain any other retirement or post-termination benefits plans. We do not currently maintain any change-in-control severance plans.

**V. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information known to us with respect to the beneficial ownership of our common stock as of March 31, 2008 by:

each person known by us to own beneficially more than 5% of our outstanding common stock;

each of our Directors or nominees;

each of our Named Executive Officers; and

all of our Directors, nominees and executive officers as a group.

There were 37,141,150 shares of common stock outstanding as of March 31, 2008. Unless otherwise indicated, the table below includes the number of shares underlying options and warrants that are currently exercisable or exercisable within 60 days of March 31, 2008. Shares of common stock subject to options and warrants that are currently exercisable or exercisable within 60 days of March 31, 2008 are considered outstanding and beneficially owned by the person holding the options or warrants for the purposes of computing beneficial ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. To our knowledge, except as set forth in the footnotes to this table and subject to applicable community property laws where applicable, each person named in the table has sole voting and investment power with respect to the shares set forth opposite such person's name. Except as otherwise indicated, the address of each of the persons in this table is as follows: c/o Stereotaxis, Inc., 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108.

Name and address of Beneficial Owner of Common Stock	Number of shares of Common Stock beneficially owned	Percentage of shares of Common Stock beneficially owned
<b>Five percent stockholders</b>		
T. Rowe Price Associates, Inc. (1)  100 E. Pratt Street  Baltimore, MD 21202	3,968,762	10.7%
Entities affiliated with Sanderling Ventures (2)  400 S. El Camino Real, Suite 1200  San Mateo, CA 94402	3,858,107	10.3%

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Alafi Capital Company LLC (3) 9 Commodore Drive, Suite 405 Emeryville, CA 94608	3,276,667	8.7%
Next Century Growth Investors, LLC (4) 5500 Wayzata Blvd., Suite 1275 Minneapolis, MN 55416	3,178,774	8.6%
Entities affiliated with EGS Healthcare (5) 105 Rowayton Avenue, 2 <sup>nd</sup> Floor Rowayton, CT 06853	2,059,796	5.5%



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Name and address of Beneficial Owner of Common Stock	Number of shares of Common Stock beneficially owned	Percentage of shares of Common Stock beneficially owned
<b>Directors and Named Executive Officers</b>		
Fred A. Middleton (6)	4,133,393	11.0%
Abhi Acharya (7)	58,611	*
Christopher Alafi (8)	3,489,028	9.3%
David W. Benfer (9)	52,100	*
Ralph G. Dacey, Jr. (10)	85,000	*
Gregory R. Johnson (11)	263,272	*
William M. Kelley (12)	88,027	*
Abhijeet Lele (13)	2,120,629	5.7%
Robert J. Messey (14)	59,100	*
William C. Mills III (15)	82,500	*
Eric N. Prystowsky (16)	17,500	*
Bevil J. Hogg (17)	871,342	2.3%
Douglas M. Bruce (18)	230,947	*
Michael P. Kaminski (19)	329,880	*
James M. Stolze (20)	218,805	*
Melissa C. Walker (21)	125,905	*
Kevin T. Shifrin	35,200	*
All Directors and executive officers as a group (17 persons)(22)	12,261,239	31.0%

\* Indicates ownership of less than 1%

- (1) T. Rowe Price Associates, Inc. ( Price Associates ) does not serve as custodian of the assets of any of its clients; accordingly, in each instance only the client or the client's custodian or trustee bank has the right to receive dividends paid with respect to, and proceeds from the sale of, such securities. The ultimate power to direct the receipt of dividends paid with respect to, and the proceeds from the sale of, such securities, is vested in the individual and institutional clients to whom Price Associates serves as investment adviser. Any and all discretionary authority which has been delegated to Price Associates may be revoked in whole or in part at any time. All information regarding ownership of Price Associates is based solely on a Schedule 13G filed by Price Associates on February 12, 2008.
- (2) Includes: (a) 797 shares held by the Middleton McNeil Retirement Trust; (b) 828 shares held by and 1,896 shares issuable under warrants held by Sanderling Ventures Management V; (c) 12,006 shares held and 5,312 shares issuable under warrants held by Sanderling VI Beteiligungs GmbH & Co. KG; (d) 14,305 shares held by and 6,329 shares issuable under warrants held by Sanderling VI Limited Partnership; (e) 6,149 shares held by Sanderling Ventures Management VI; (f) 532,758 shares held by and 9,480 shares issuable under warrants held by Sanderling IV Biomedical Co-Investment Fund, L.P.; (g) 224,515 shares held by Sanderling Venture Partners IV Co-Investment Fund, L.P.; (h) 677,906 shares held by and 24,501 shares issuable under warrants held by Sanderling Venture Partners V Co-Investment Fund, L.P.; (i) 110,971 shares held by and 3,565 shares issuable under warrants held by Sanderling V Beteiligungs GmbH & Co. KG; (j) 119,566 shares held by and 4,006 shares issuable under warrants held by Sanderling V Limited Partnership; (k) 397,164 shares held by and 14,854 shares issuable under warrants held by Sanderling V Biomedical Co-Investment Fund, L.P.; (l) 781,351 shares held by Sanderling Venture Partners II, L.P.; (m) 15,000 shares held by Sanderling Management 401(k) Plan; and (n) 620,366 shares held and 274,482 shares issuable under warrants held by Sanderling Venture Partners VI Co-Investment Fund, L.P.

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The Middleton McNeil Retirement Trust has voting and dispositive authority over the shares owned by such trust. The trust's trustees are Fred A. Middleton and Robert G. McNeil, who manage the trust for the benefit of Fred A. Middleton and Robert G. McNeil. Such individuals disclaim beneficial ownership of all such shares held by the foregoing trust, except to the extent of their proportionate pecuniary interests therein.

Middleton-McNeil Associates, L.P. is the general partner of Sanderling Venture Partners II, L.P. and has voting and dispositive authority over the shares owned by Sanderling Venture Partners II, L.P. Middleton-McNeil Associates, L.P. is managed by its general partners, Fred A. Middleton and Robert G. McNeil. Such individuals disclaim beneficial ownership of all such shares held by the foregoing funds, except to the extent of their proportionate pecuniary interests therein.

Middleton-McNeil Associates IV, LLC is the general partner of Sanderling IV Biomedical Co-Investment Fund, L.P. and has voting and dispositive authority over the shares owned by Sanderling IV Biomedical Co-Investment Fund, L.P. Middleton-McNeil Associates IV, LLC is managed by its members, Fred A. Middleton and Robert G. McNeil. Such individuals disclaim beneficial ownership of all such shares held by the foregoing funds, except to the extent of their proportionate pecuniary interests therein.

Middleton-McNeil Associates IV, L.P. is the general partner of Sanderling Venture Partners IV Co-Investment Fund, L.P. and has voting and dispositive power over the shares owned by Sanderling Venture Partners IV Co-Investment Fund, L.P. Middleton-McNeil Associates IV, L.P. is managed by its general partners, Fred A. Middleton and Robert G. McNeil. Such individuals disclaim beneficial ownership of all such shares held by the foregoing funds, except to the extent of their proportionate pecuniary interests therein.

Middleton, McNeil & Mills Associates V, LLC is the Investment General Partner of Sanderling V Limited Partnership and Sanderling V Beteiligungs GmbH & Co. KG and the General Partner of Sanderling V Biomedical Co-Investment Fund, L.P. and Sanderling Venture Partners V Co-Investment Fund, L.P. and has voting and dispositive authority over the shares owned by such entities. Middleton, McNeil & Mills Associates V, LLC is managed by its managing directors, Fred A. Middleton and Robert G. McNeil, Timothy C. Mills and Timothy J. Wollaeger. Such individuals disclaim beneficial ownership of all such shares held by the foregoing funds, except to the extent of their proportionate pecuniary interests therein.

Sanderling Ventures Management V is managed by Fred A. Middleton and Robert G. McNeil, Timothy C. Mills, and Timothy J. Wollaeger, the individuals who have invested under the d/b/a Sanderling Ventures Management V, which individuals have voting and dispositive power over the shares owned by Sanderling Ventures Management V. Such individuals disclaim beneficial ownership of all such shares held by the foregoing funds, except to the extent of their proportionate pecuniary interests therein.

Sanderling Ventures Management VI is managed by Fred A. Middleton and Robert G. McNeil, Timothy C. Mills, Timothy J. Wollaeger and Paul A. Grayson, the individuals who have invested under the d/b/a Sanderling Ventures Management VI, which individuals have voting and dispositive power over the shares owned by Sanderling Ventures Management VI. Such individuals disclaim beneficial ownership of all such shares held by the foregoing funds, except to the extent of their proportionate pecuniary interests therein.

Middleton, McNeil, Mills & Associates, VI, LLC is the Investment General Partner of Sanderling Venture Partners VI Co-Investment Fund, L.P., Sanderling VI Beteiligungs GmbH & Co. KG and Sanderling VI Limited Partnership and has voting and dispositive power over the shares owned by such entity. Sanderling Venture Partners VI Co-Investment Fund, L.P. is managed by its managing directors, Fred A. Middleton and Robert G. McNeil, Timothy C. Mills, Timothy J. Wollaeger and Paul A. Grayson. Such individuals disclaim beneficial ownership of all such shares held by the foregoing funds, except to the extent of their proportionate pecuniary interests therein.

- (3) Includes 2,791,830 shares held by and 484,837 shares issuable under warrants held by Alafi Capital Company LLC ( Alafi Capital ). Christopher Alafi, one of our Directors, and Moshe Alafi are the managing partners of Alafi Capital and have full voting and investment power with respect to the shares owned by Alafi Capital.
- (4) Next Century Growth Investors, LLC ( Next Century Growth ) has investment discretion and/or voting power over client securities, which may be revoked, including shares of common stock of the Company. Thomas L. Press and

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Donald M. Longlet, as a result of their positions with and ownership positions in Next Century Growth, could be deemed to confer upon each of them voting and/or investment power over the shares. Each of Next Century Growth, Thomas L. Press and Donald M. Longlet disclaim beneficial ownership of such stock except to the extent of each of their respective pecuniary interests therein, if any. All information regarding ownership of Next Century Growth and Messrs. Press and Longlet is based solely on a Schedule 13G filed by Next Century Growth on February 14, 2008.

- (5) Includes (a) 593,495 shares held by EGS Private Healthcare Partnership, L.P., (b) 84,782 shares held by EGS Private Healthcare Counterpart, L.P., (c) 1,046,798 shares held by EGS Private Healthcare Partnership II L.P., (d) 165,089 shares held by EGS Private Healthcare Investors II, L.P., (e) 157,517 shares held by EGS Private Healthcare Canadian Partners, L.P., and (f) 12,115 shares held by EGS Private Healthcare President's Fund, L.P. (collectively, "EGS").

EGS Private Healthcare Investors, L.L.C. is the general partner of EGS Private Healthcare Partnership II L.P., EGS Private Healthcare Investors II, L.P., EGS Private Healthcare Canadian Partners, L.P. and EGS Private Healthcare President's Fund, L.P. and has voting and dispositive power over the shares owned by such entities. EGS Private Healthcare Investors, L.L.C. is managed by a board of managers comprised of Abhijeet Lele and Terry Vance. Such individuals disclaim beneficial ownership of all such shares held by the foregoing funds, except to the extent of their proportionate pecuniary interests therein.

EGS Private Healthcare Associates, LLC is the general partner of EGS Private Healthcare Partnership, L.P. and EGS Private Healthcare Counterpart, L.P. and has voting and dispositive power over the shares owned by such entities. EGS Private Healthcare Associates, LLC is managed by Fred Greenberg, its managing member. Mr. Lele has also been delegated authority to act on behalf of such entity. Such individuals disclaim beneficial ownership of all such shares held by the foregoing funds, except to the extent of their proportionate pecuniary interests therein.

- (6) Includes 3,513,682 shares held by and 344,425 shares issuable under warrants held by Sanderling as described above. Mr. Middleton disclaims beneficial ownership of the shares and warrants held by Sanderling and Middleton-McNeil L.P. except to the extent of his proportionate ownership interest therein. Also includes options to purchase 77,500 shares of common stock.
- (7) Includes options to purchase 7,500 shares.
- (8) Includes 2,791,830 shares held by and 484,837 shares issuable under warrants held by Alafi Capital as described above. Dr. Alafi is a general partner of Alafi Capital and disclaims beneficial ownership of the shares and warrants held by Alafi Capital except to the extent of his proportionate partnership interest therein. Includes 2,225 shares held by the Alafi Family Foundation. Also includes options to purchase 35,000 shares of common stock held by Dr. Alafi.
- (9) Includes options to purchase 37,500 shares.
- (10) Includes options to purchase 35,000 shares.
- (11) Includes 77,796 shares held by Prolog Capital A, L.P., 117,479 shares held by Prolog Capital B, L.P. and 1,500 shares held by Prolog Ventures A, LLC. Dr. Johnson is a Principal of each of such entities and disclaims beneficial ownership of the shares and warrants held by such entities except to the extent of his proportionate partnership interest therein. Also includes options to purchase 35,000 shares of common stock.
- (12) Includes 4,000 shares held by Advisors To Healthcare Suppliers (ATHS), formerly MedTech Partners. Mr. Kelley is a partner of ATHS and disclaims beneficial ownership of the shares held by ATHS except to the extent of his proportionate partnership interest therein. Also includes options to purchase 69,027 shares.

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- (13) Includes 2,059,796 shares held by held by EGS as described above. Mr. Lele is a general partner of EGS and member of the board of managers of EGS Private Healthcare Investments, L.L.C. and EGS Private Healthcare Associates, L.L.C., which control the EGS entities, and disclaims beneficial ownership of such shares and warrants held by the EGS entities except to the extent of his proportionate ownership interest therein. Also includes options to purchase 30,833 shares of common stock.
  
- (14) Includes options to purchase 45,000 shares of common stock.

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- (15) Includes options to purchase 57,500 shares of common stock.
  
- (16) Includes options to purchase 7,500 shares of common stock.
  
- (17) Includes options to purchase 485,442 shares of common stock.
  
- (18) Includes options to purchase 111,824 shares. Also includes 100 shares owned by Mr. Bruce's minor daughter.
  
- (19) Includes options to purchase 288,030 shares of common stock.
  
- (20) Includes options to purchase 170,405 shares of common stock.
  
- (21) Includes options to purchase 67,411 shares of common stock.
  
- (22) Includes 829,262 shares issuable under Warrants and options to purchase 1,552,972 shares.

**VI. AUDIT COMMITTEE**

Three non-employee Directors comprise the Audit Committee. All are independent as defined in Rule 4200 (a)(15) of the Rules of the NASD. The Board of Directors has adopted a written charter for the Audit Committee which was attached as Exhibit A to our Proxy statement filed on April 14, 2005.

The Audit Committee assists the Board of Directors in its oversight of our accounting and financial reporting process. Management has the primary responsibility for the financial statements and the reporting process, including our systems of internal control, while the independent registered public accountants are responsible for performing an independent audit of our financial statements in accordance with auditing standards generally accepted in the United States and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States.

In fulfilling its oversight responsibilities the Committee reviewed and discussed the audited financial statements to be included in the Annual Report on Form 10-K for the year ended December 31, 2007 with management, including a discussion of the quality and the acceptability of our financial reporting practices and the internal controls over financial reporting.

The Committee reviewed with the independent registered public accounting firm their judgments as to the quality and the acceptability of our financial reporting and such other matters as are required to be discussed with the Committee under auditing standards generally accepted in the United States, including the matters required to be discussed by Statement on Auditing Standards No. 61. In addition, the Committee discussed with the independent registered public accountants, the firm's independence from our management including the matters in the accountants' written disclosure and the letter required by Standard No. 1 of the Independence Standards Board received by us.

Our independent registered public accountants did not provide any non-audit services to us during 2007.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the SEC. The Committee has appointed Ernst & Young LLP as the Company's independent registered public accountants for fiscal 2008.

William C. Mills III, Chair

Robert J. Messey

David W. Benfer

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**VII. PROPOSAL II: AMENDMENT OF THE 2002 STOCK INCENTIVE PLAN**

Our 2002 Stock Incentive Plan was adopted by our Board of Directors in February 2002 and approved by our stockholders in March 2002. An amendment to the plan authorizing an increase of shares issuable under the plan by 1,000,000 was approved by our stockholders on May 24, 2007. Our Board of Directors believes that long-term incentive compensation programs align the interests of management, employees and the stockholders to create long-term stockholder value. The Board believes that plans such as the 2002 Stock Incentive Plan increase our ability to achieve this objective by allowing for several different forms of long-term incentive awards, which the Board believes will help us recruit, reward, motivate and retain talented personnel.

As of March 31, 2008, a total of 7,110,998 shares of common stock have been reserved for issuance under this plan, which includes shares that were available for issuance under the 1994 Stock Option Plan as of the date the 2002 Stock Incentive Plan was adopted and shares that were added to the authorized shares on January 1, 2003, 2004, 2005, 2006 and 2007 pursuant to the terms of the 2002 Incentive Stock Plan. In addition, under the terms of our 2002 Non-Employee Directors' Stock Plan, grants for shares in excess of the 300,000 shares available under that plan reduce the number of shares otherwise available for grant under the 2002 Stock Incentive Plan at the time of any stock option award.

Under the terms of the 2002 Stock Incentive Plan, the exercise price of each stock option is the market value of our common stock on the date of grant. Stock options have a maximum term of 10 years but terminate earlier if the individual ceases to provide service to the Company. As of March 31, 2008, options and stock appreciation rights to purchase 3,749,106 shares were issued and outstanding under the 2002 Stock Incentive Plan and 2,025,073 options and stock appreciation rights had been exercised. In addition, as of such date, 666,206 shares of restricted stock were issued and outstanding under the 2002 Stock Incentive Plan. No other awards had been made and 560,902 shares remained available for future grants as of such date (which number accounts for the reduction of shares available under the 2002 Non-employee Directors' Stock Plan, as described in the preceding paragraph). As of March 31, 2008, the closing price of our common stock was \$5.92 per share.

In April 2008, our Board of Directors approved a proposal to amend the 2002 Stock Incentive Plan to increase the shares reserved for issuance thereunder by 1,500,000 shares. We are seeking stockholder approval of this amendment to the 2002 Stock Incentive Plan.

Please see the summary of the 2002 Stock Incentive Plan below.

**Vote Required and Recommendation**

The affirmative vote of a majority of the votes cast, in person or by proxy, will be required to amend the 2002 Stock Incentive Plan to increase the number of shares reserved for issuance thereunder. Because brokers are not permitted to vote on this proposal in the absence of voting instructions from beneficial owners, broker non-votes will have no effect on the outcome of this proposal. Abstentions will have the effect of negative votes.

The Board of Directors and our executive officers have an interest in this proposal as they may receive awards under the 2002 Stock Incentive Plan.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDMENT TO INCREASE THE SHARES RESERVED UNDER THE 2002 STOCK INCENTIVE PLAN BY 1,500,000 SHARES.

***Summary of the 2002 Stock Incentive Plan (including proposed amendment to reserve an additional 1,500,000 shares for issuance)***

The 2002 Stock Incentive Plan is summarized below. The following summary of certain features of the 2002 Stock Incentive Plan is qualified in its entirety by reference to the actual text of the 2002 Stock Incentive Plan, which is attached as Exhibit B to this proxy statement.

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**General.** This plan is designed to attract, motivate and retain our employees and other selected individuals through long-term incentive and other awards, thereby providing them with a proprietary interest in our growth and performance.

**Eligibility.** Our employees, including any employees of any direct or indirect subsidiaries that we may form from time to time, and consultants and contractors are eligible to participate in this plan, and awards may consist of any form of stock option, performance share award or restricted stock award. However, the grant of incentive stock options is restricted to our employees or the employees of any of our direct or indirect subsidiaries. There are currently approximately 220 employees and Directors eligible to participate under the 2002 Stock Incentive Plan.

**Administration.** This plan is administered by the Board of Directors through a Committee appointed by the Board of Directors. The compensation committee currently administers this plan. Currently, every member of the compensation committee is (i) a Non-Employee Director within the meaning of Rule 16b-3 of the Exchange Act, and (ii) an Independent Director for purposes of the rules and regulations of The Nasdaq Global Market, Inc. Our compensation committee charter specifies that a majority of the members shall be outside directors as defined by Section 162(m) of the Internal Revenue Code, and that any members who are not outside directors as defined by Section 162(m) of the Internal Revenue Code, shall recuse themselves from participating in discussion regarding, or voting on, matters that require the approval of outside directors under Section 162(m) of the Internal Revenue Code. The committee has full power to determine persons eligible to participate in the plan, to interpret this plan, to adopt the rules, regulations and guidelines necessary or proper to carry out this plan and to determine the type and terms of any awards to be granted. The specific terms, conditions, performance requirements, limitations and restrictions of any award will be set forth in an award agreement, entered into between us and a participant.

Awards may include but are not limited to the following:

**Stock Options.** The committee is able to grant nonqualified stock options and incentive stock options under the 2002 Stock Incentive Plan. The award agreement for an option grant sets forth the terms and provisions of the award, including the exercise price per share, the maximum duration of the option and the number of shares of common stock to which the option pertains. The exercise price of an incentive stock option may not be less than 100% of the fair market value of the common stock on the date the option is granted (110% in the case of a 10% stockholder), and the exercise price of a nonqualified option must be determined by the committee, but may not be less than 100% of the fair market value of the common stock on the date the option is granted. As our common stock is listed on the Nasdaq Global Market, the fair market value is the per share closing sale price for the common stock (or the average of the closing bid and asked prices if no sales were reported that day) on the date the option is granted. No individual may be granted options to purchase more than 277,777 shares during any fiscal year.

The price at which shares of stock may be purchased under a stock option must be paid in cash at the time of exercise, or, at the discretion of the committee, by the tender of stock or another award, or through a cashless exercise whereby a portion of the proceeds from the sale of the option shares is paid to us in satisfaction of the exercise price.

The term of an option may not exceed 10 years, except that, with respect to any participant who owns 10% of the voting power of all classes of our outstanding capital stock, the term of an incentive stock option may not exceed five years.

Pursuant to the current form of nonqualified stock option agreement and the form of incentive stock option agreement, options have a ten year term. Grants to non-employees generally fully vest on the first anniversary of the date of grant. Under the current form of stock option agreement, grants to employees generally become partially available for exercise on the first anniversary of the grant date. On such date, 25% of the shares



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covered by the option become available for exercise, with an additional 2.0833% becoming available on the first day of each calendar month thereafter, such that the entire number of shares covered by an option are available by the fourth anniversary of the grant date. In the event of a change of control and if a participant's employment is terminated in contemplation of, or within one year after, the change of control, the option fully vests. For these purposes, a change of control means:

the purchase or acquisition by any person, entity or group of beneficial ownership of 20% or more of the then-outstanding shares of our common stock or of the combined voting power to elect the Board of Directors;

a change in a majority of the members of the Board of Directors in place at the date of effectiveness of this plan, unless any such change is approved by a majority of such remaining original Board members; or

the liquidation, dissolution, sale of all or substantially all of our assets, or a merger, reorganization or consolidation, under circumstances whereby the stockholders immediately prior to such transaction do not own more than 50% of the common stock and combined voting power of the successor corporation immediately after such transaction.

After a termination of service with us, a participant will be able to exercise the vested portion of his or her option for the period of time stated in the award agreement. If no such period of time is stated in the participant's award agreement, the participant will generally be able to exercise his or her option for (i) 30 days following his or her termination for reasons other than death or disability, and (ii) twelve months following his or her termination due to death or disability. In no event may an option be exercised later than the expiration of its term.

*Stock Appreciation Rights.* The committee has approved the issuance of stock appreciation rights under the Plan. Stock appreciation rights are the rights to receive the appreciation in fair market value of common stock between the exercise date and the date of grant. We can pay the appreciation in either cash, or shares of our common stock, or a combination thereof. Stock appreciation rights will become exercisable at the times and on the terms established by the committee, subject to the terms of the 2002 Stock Incentive Plan. The committee, subject to the terms of the 2002 Stock Incentive Plan, will have complete discretion to determine the terms and conditions of stock appreciation rights granted under the 2002 Stock Incentive Plan; provided, however, that the term of a stock appreciation right may not be repriced without stockholder approval, as discussed below. After termination of service with us, a participant will be able to exercise the vested portion of his or her stock appreciation right for the period of time stated in the award agreement. If no such period of time is stated in a participant's award agreement, a participant will generally be able to exercise his or her stock appreciation right for (i) six months following his or her termination for reasons other than death or disability, and (ii) twelve months following his or her termination due to death or disability. In no event will a stock appreciation right be exercised later than the expiration of its term.

*Performance Shares.* A performance share award is an award denominated in units of stock, which will provide for payment of stock if performance goals are achieved over specified performance periods. Once the performance share award vests, the participant shall be entitled to payout of the value of the award in shares of common stock.

*Restricted Stock.* Restricted stock is an award of common stock granted subject to restrictions on transfer and vesting requirement as determined by the committee. The committee shall have complete discretion to determine (i) the number of shares subject to a restricted stock granted to any participant and (ii) the conditions for grant or for vesting that must be satisfied, which typically will be based principally or solely on continued service to us but may include a performance-based component. Shares of common stock granted under any restricted stock agreement may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated until all applicable restrictions are removed or have expired, except as provided for by the committee.

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**Restrictions on Transferability.** Awards granted under this plan are generally not transferable by the participant except by law, will or the laws of descent and distribution, or by permission of the committee.

**Receipt of Award.** If payment is required, payment of awards may be made in the form of cash, stock or any combination of cash or stock as determined by the Committee. In addition, payments may be deferred, and dividends or dividend equivalent rights may be extended to and made a part of any award denominated in stock or units of stock, in accordance with such terms, conditions or restrictions as the committee may establish. Participants may also be offered an election to substitute an award for another award or awards of the same or different type.

**Section 162(m).** Section 162(m) denies a deduction to any publicly held corporation for compensation paid to covered employees in a taxable year to the extent that compensation to any covered employee exceeds \$1 million. It is possible that compensation attributable to stock awards, when combined with all other types of compensation received by our covered employees, could cause us to exceed this limitation in any particular year for one or more of our covered employees. For purposes of Section 162(m), the term covered employee means our chief executive officer and our four highest compensated officers as of the end of a taxable year, determined in accordance with federal securities laws.

Compensation that qualifies as performance-based compensation under Section 162(m) is exempt from the \$1 million deduction limit. We sought and obtained stockholder approval at the 2007 Annual Meeting to permit certain awards granted under 2002 Stock Incentive Plan to covered employees to qualify as performance-based compensation. Prior to the date of the 2007 Annual Meeting, awards granted under the Incentive Compensation Plan were exempt from the deduction limit imposed by Section 162(m) based upon a transition exemption for companies that have recently become public.

In order to preserve our ability to deduct the compensation associated with options and stock appreciation rights granted to such persons, the 2002 Stock Incentive Plan provides that no participant may be granted options and stock appreciation rights to purchase more than 277,777 shares of common stock in any fiscal year. We have designed the 2002 Stock Incentive Plan so that it permits us to also issue other awards that qualify as performance-based compensation under Section 162(m) of the Code.

The committee, in its discretion, may establish performance goals applicable to a participant with respect to an award. These performance goals will be established in accordance with the terms of the Plan which are consistent with the deductibility criteria under Section 162(m).

**Capitalization Changes.** In the event that our capital stock is changed by reason of any stock split, reverse stock split, stock dividend, recapitalization or other change in our capital structure, appropriate proportional adjustments shall be made in the number and class of shares of stock subject to the 2002 Stock Incentive Plan, the individual fiscal year limits applicable to restricted stock, performance share awards, stock appreciation rights and options, the number and class of shares of stock subject to any award outstanding under the 2002 Stock Incentive Plan, and the exercise price of any such outstanding option or SAR or other award. Any such adjustment shall be made upon approval of the compensation committee, whose determination will be conclusive.

**Repricings.** Other than in connection a change in our capitalization, discussed above, neither the committee nor the Board has the authority to reprice any outstanding option or stock appreciation right without stockholder approval. For purposes of the 2002 Stock Incentive Plan, repricing includes lowering the exercise price of an option or the grant price of a stock appreciation right after it is granted and canceling an option at a time when its exercise price exceeds the fair market value of the underlying stock, in exchange for an option, restricted stock award or other equity related award.

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**Amendment, Suspensions and Termination of the 2002 Stock Incentive Plan.** Our Board of Directors may amend, alter, suspend or terminate the 2002 Stock Incentive Plan at any time, except that stockholder approval is required for any amendment to the 2002 Stock Incentive Plan to the extent required by any applicable laws. No amendment, alteration, suspension or termination of the 2002 Stock Incentive Plan will impair the rights of any participant, unless mutually agreed otherwise between the participant and the committee and which agreement must be in writing and signed by the participant and the Company. The 2002 Stock Incentive Plan will terminate on March 25, 2012, unless our Board of Directors terminates it earlier.

### **Federal Income Tax Aspects**

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and the Company of awards granted under the 2002 Stock Incentive Plan. Tax consequences for any particular individual may be different.

**Nonqualified Stock Options.** No taxable income is realized when a nonqualified stock option with an exercise price equal to the fair market value of the underlying stock on the date of grant is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount by which the fair market value of the shares purchased on the date of exercise, exceeds the exercise price paid for such share. Any taxable income recognized in connection with an option exercise by an employee of the Company is subject to tax withholding by the Company. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

**Incentive Stock Options.** No taxable income is realized when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case the differential between the fair market value on the date of grant and the exercise price is an alternative minimum tax preference item). If a participant exercises the option and then later sells or otherwise disposes of the shares acquired pursuant to an incentive stock option more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will realize ordinary income at the time of the disposition equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

**Stock Appreciation Rights.** No taxable income is realized when a stock appreciation right with an exercise price equal to the fair market value of the underlying stock on the date of grant is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of excess, if any, of the fair market value of the stock on the date of exercise over the fair market value of the stock on the date of grant. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

**Restricted Stock.** Unless a timely 83(b) election is made, as described in the following paragraph, a participant generally will not realize taxable income at the time an award of restricted stock is granted. Instead, he or she will recognize ordinary income in the first taxable year in which his or her interest in the shares underlying the award becomes either (i) freely transferable, or (ii) no longer subject to substantial risk of forfeiture. The amount of ordinary income recognized will be equal to the difference between the fair market value of the shares at the time any restrictions on transferability lapse and the original purchase price paid for the shares, if any.

A participant may elect, pursuant to Section 83(b) of the Internal Revenue Code, to recognize ordinary income at the time he or she is granted the award in an amount equal to the fair market value of the shares underlying the award (less the purchase price paid for the shares, if any) on the date the award is granted, notwithstanding that the restricted stock would otherwise not be includible in gross income at that time. Any change in the value of the shares after the date of grant would be taxed as a capital gain or loss if and when the shares are disposed of by the participant. If the section 83(b) election is made, the participant's holding period for capital gains begins on the date of grant.

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**Performance Shares.** A participant generally will not recognize taxable income upon the granting of an award of performance shares. Instead, he or she will recognize ordinary income in the first taxable year in which his or her interest in the shares underlying the award becomes either (i) freely transferable, or (ii) no longer subject to substantial risk of forfeiture. The amount of ordinary income recognized will be equal to the difference between the fair market value of the shares at the time any restrictions on transferability lapse and the original purchase price paid for the shares, if any. Upon selling shares of stock received in payment under a performance share, the participant will recognize a capital gain or loss in an amount equal to the difference between the sale price of the share and the participant's tax basis in the share.

**Tax Effect for the Company.** We generally will be entitled to a tax deduction in connection with an award under the 2002 Stock Incentive Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). Special rules limit the deductibility of compensation paid to our Chief Executive Officer and to each of our three most highly compensated executive officers (other than the Chief Executive Officer and, in most circumstances, our Chief Financial Officer). Under Section 162(m), the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, we can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the 2002 Stock Incentive Plan, which we obtained at our 2007 Annual Meeting, setting limits on the number of awards that any individual may receive and for awards other than certain stock options and establishing performance criteria that must be met before the award actually will vest or be paid. The 2002 Stock Incentive Plan has been designed to permit the committee to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting us to continue to receive a federal income tax deduction in connection with such awards.

**Section 409A.** Section 409A of the Code, which was added by the American Jobs Creation Act of 2004, provides certain new requirements with respect to non-qualified deferred compensation arrangements. These include new requirements with respect to an individual's election to defer compensation and the individual's election of the timing and form of distribution of the deferred compensation. Section 409A also generally provides that distributions may only be made on or following the occurrence of certain events (e.g., the individual's separation from service, a predetermined date, the individual's death or a change in control). Section 409A imposes restrictions on an individual's ability to change his or her distribution timing or form after the compensation has been deferred. For certain individuals who are specified employees, Section 409A requires that such individual's distribution commence no earlier than six months after such individual's separation from service. For purposes of Section 409A, the term specified employee includes officers with a certain level of compensation (\$150,000 in 2008) and employees with a certain level of ownership in the company.

Awards granted under the 2002 Stock Incentive Plan with a deferral feature will be subject to the requirements of Section 409A. If an award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that award may recognize ordinary income on the amounts deferred under the award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with the provisions of Section 409A, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation. Generally, we intend to structure any awards under the 2002 Stock Incentive Plan to either be exempt from or meet the applicable tax law requirements under Section 409A in order to avoid its adverse tax consequences.

THE FOREGOING IS ONLY A SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES TO THE PARTICIPANTS AND THE COMPANY WITH RESPECT TO THE GRANT AND EXERCISE OF AWARDS UNDER THE 2002 STOCK INCENTIVE PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A PARTICIPANT'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

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### **Accounting Treatment**

We adopted Statement of Financial Accounting Standards ( SFAS ) No. 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ), in the first quarter of fiscal 2006. SFAS 123(R) requires the estimated fair market value of all share-based payments to employees, including grants of employee stock options, to be recognized as expense in the statement of operations. Share-based compensation expense to be recognized would include the estimated expense for all stock awards granted on and subsequent to January 29, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R), and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 29, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123.

### **Stock Issuances**

The Committee has discretionary authority to approve awards under the 2002 Incentive Stock Plan. For this reason, the benefits that will be received by or allocated to any person or group of persons under the 2002 Stock Incentive Plan in future periods is not presently determinable. No awards have been approved by the Committee to be granted under the 2002 Incentive Stock Plan subject to stockholder approval at the 2008 Annual Meeting.

### **VIII. PROPOSAL III: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

Our Audit Committee, pursuant to its charter, has appointed Ernst & Young LLP as the Company's independent registered public accountants to examine the financial statements of the Company for our 2008 fiscal year.

While the Audit Committee is responsible for the appointment, compensation, retention, termination and oversight of the independent registered public accounting firm, the Audit Committee and our Board are requesting, as a matter of policy, that the stockholders ratify the appointment of Ernst & Young LLP as the Company's independent registered public accountants for 2008. The Audit Committee is not required to take any action as a result of the outcome of the vote on this proposal. However, if the stockholders do not ratify the appointment, the Audit Committee may investigate the reasons for stockholder rejection and may consider whether to retain Ernst & Young LLP or to appoint another firm. Furthermore, even if the appointment is ratified, the Audit Committee in their discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

A formal statement by representatives of Ernst & Young LLP is not planned for the Annual Meeting. However, Ernst & Young LLP representatives are expected to be present at the meeting and available to respond to appropriate questions.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2008.

**Table of Contents****IX. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The following fees were charged for professional services rendered by Ernst & Young LLP, our independent registered public accountants, in fiscal year 2006 and fiscal year 2007:

Description of Professional Service	Amount Billed for Fiscal Year	
	2006	2007
	\$	\$
<b>Audit Fees</b> professional services rendered for the audit of our annual financial statements and review of financial statements included in our Form 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.	454,383	508,000
<b>Audit-Related Fees</b> assurance and related services by Ernst & Young LLP that are reasonably related to the performance of the audit or review of financial statements and are not reported as Audit Fees.	39,100	92,000
<b>Tax Fees</b> professional services rendered by Ernst & Young LLP for tax compliance, tax advice and tax planning.	-	-
<b>All Other Fees</b>	-	-
<b>Total Ernst &amp; Young LLP Fees</b>	493,483	600,000

**Pre-Approval Policy**

As described in the Audit Committee charter, which was amended and restated in March 2004, it is the Audit Committee's policy and procedure to review and consider and ultimately pre-approve, where appropriate, all audit and non-audit engagement services to be performed by our independent registered public accountants.

**X. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

Since January 1, 2001, there has not been, nor is there currently planned, any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeds \$120,000 and in which any Director, executive officer or holder of more than 5% of our common stock or any member of such persons' immediate families had or will have a direct or indirect material interest other than agreements which are described below.

**Nasdaq Rules.** The Nasdaq rules defining independent director status also govern conflict of interest situations. Each of our Directors other than Mr. Hogg qualifies as independent in accordance with Nasdaq rules. The Nasdaq rules include a series of objective tests that would not allow a director to be considered independent if the director had certain employment, business or family relationships with the Company. The Nasdaq independence definition includes a requirement that the Board also review the relations of each independent director to the Company on a subjective basis. In accordance with that review, the Board has made a subjective determination as to each independent director that no relationships exist that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a Director. In making these determinations, the Directors reviewed and discussed information provided by the Directors and the Company with regard to each Director's business and personal activities as they may relate to the Company and the Company's management.

**SEC Rules.** In addition to the Company and Nasdaq policies and rules described above, the SEC has specific disclosure requirements covering certain types of transactions involving the Company and a Director, executive officer or other specified party. There were no such transactions in fiscal year 2007 except as disclosed below.

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Further, except as disclosed below, with regard to SEC rules, we have not engaged in any transaction, or series of similar transactions, since the beginning of fiscal year 2007, or any currently proposed transaction, or series of similar transactions, to which the Company was or is to be a party, in which the amount involved exceeds \$120,000 and in which any of our Directors, executive officers, nominees for election as a Director, beneficial owners of more than 5% of our common stock, or members of their immediate family had, or will have, a direct or indirect material interest.

In addition, except as noted in the following paragraph, none of the following persons has been indebted to the Company or its subsidiaries at any time since the beginning of fiscal year 2007: any of our Directors or executive officers; any nominee for election as a Director; any member of the immediate family of any of our Directors, executive officers or nominees for Director; any corporation or organization of which any of our Directors, executive officers or nominees is an executive officer or partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities (except trade debt entered into in the ordinary course of business); and any trust or other estate in which any of the Directors, executive officers or nominees for Director has a substantial beneficial interest or for which such person serves as a trustee or in a similar capacity.

### **Note and Warrant Purchase Agreement**

Effective February 7, 2008, we entered into a Note and Warrant Purchase Agreement with Alafi Capital Company and certain affiliates of Sanderling Venture Partners relating to (i) the commitment by these investors to lend to us up to an aggregate principal amount of \$20 million (the Committed Funds ) to be evidenced by promissory notes (the Notes ) with interest at the same interest rate of loans made by Silicon Valley Bank ( SVB ) to us, and (ii) the issuance of warrants to purchase shares of our common stock. The private placement was conducted pursuant to Section 4(2) of the Securities Act of 1933, as amended. Net proceeds from the private placement, if they are drawn, would likely be used for working capital and other general corporate purposes. The Committed Funds are available for us to draw until the earlier of February 9, 2009 or the receipt by us of not less than \$20 million in connection with a third party financing (the Commitment Period ). We have an option to extend the Commitment Period and the term of the Notes through May 11, 2009. Each of the investors received five-year warrants to purchase shares of our common stock at an exercise price of \$6.99 per share, which was equal to the average daily closing price of our common stock for five consecutive trading days commencing January 31, 2008 and ending on February 6, 2008. The number of shares of common stock issuable upon exercise of the warrants is equal to the portion of such investor s Committed Funds multiplied by 20%, divided by the exercise price. Additional warrants are issuable if we elect to extend the Commitment Period or the term of the Notes to May 11, 2009. The number of shares of common stock underlying the warrants issuable upon such an extension is equal to the portion of such investor s Committed Funds multiplied by 5%, divided by the exercise price. In addition, upon our request, the investors have agreed to execute guarantees in favor of SVB that would provide for their guarantee, severally but not jointly and severally, of amounts borrowed by us in excess of the amount that would have otherwise been available to us using the current formula availability under our working capital line with SVB, up to a maximum of \$20 million, reduced by other draws, if any, by us from the investors. Any amounts so guaranteed would reduce the loan commitments of the investors to us, on a dollar-for-dollar basis.

Our chairman, Fred A. Middleton, is a managing director of an entity that is the general partner of the affiliates of Sanderling Venture Partners referred to above. Christopher Alafi, one of our Board members, is a manager of Alafi Capital Company.

### **Arrangements with Dr. Prystowsky**

On February 7, 2007, we appointed Dr. Eric N. Prystowsky as a Class I member of our Board of Directors. In February 2004, we entered into a consulting agreement with Dr. Prystowsky. The agreement was amended in July 2005 and provides that Dr. Prystowsky will serve as Chairman of our Electrophysiology Scientific Advisory Board and as a member of our Scientific Advisory Board. Additionally, Dr. Prystowsky agreed to (1) advise us in matters related to magnetic navigation systems, devices and therapies, (2) make presentations at conferences and seminars on our behalf, and (3) educate and train physicians regarding our

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technology. In consideration for his consulting and advisory board services, Dr. Prystowsky is entitled to receive a total cash stipend of \$75,000 per year. Dr. Prystowsky also receives an annual stipend of \$40,000 for the educational services he provides us. If Dr. Prystowsky provides more than 50 hours of educational services in a year he will receive an hourly fee of \$800 for the additional hours, up to a maximum of \$100,000 total fees for his educational services. The initial term of the agreement expired in February 2007 and was extended for a one-year period in accordance with the terms of the contract. We paid a total of \$131,013 to Dr. Prystowsky in 2007 for consulting services under this agreement. Compensation under the consulting agreement is separate from compensation payable to Dr. Prystowsky as a Director.

**XI. SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires all Company executive officers, Directors, and persons owning more than 10% of any registered class of our capital stock to file reports of ownership and changes in ownership with the SEC. Based solely on the reports received by us and on written representations from reporting persons, we believe that all such persons timely filed such reports during the last fiscal year with the exception of (i) Mr. Middleton, who filed a late Form 4 in August 2007 relating to the sale of 122 shares of our common stock by an affiliate of Mr. Middleton and (ii) Dr. Alafi who filed a late Form 4 in March 2008 relating to the exercise of warrants pursuant to which Dr. Alafi and his affiliates purchased an aggregate of 38,402 shares of our common stock.

**XII. GENERAL INFORMATION**

**A. STOCKHOLDER PROPOSALS**

**Proposals Included In Proxy Statement**

Proposals of stockholders of the Company that are intended to be presented by such stockholders at the Company's 2009 Annual Meeting and that stockholders desire to have included in the Company's proxy materials relating to such meeting must be received by the Company at its principal executive offices no later than December 18, 2008, which is 120 calendar days prior to the anniversary of April 17, 2008, the release date of this proxy statement relating to the 2008 Annual Meeting. Upon timely receipt of any such proposal, the Company will determine whether or not to include such proposal in the proxy statement and proxy in accordance with applicable regulations governing the solicitation of proxies.

**Proposals Not Included In The Proxy Statement**

Our restated bylaws provide that stockholders seeking to bring business before an Annual Meeting of Stockholders, or to nominate candidates for election as Directors at an Annual Meeting of Stockholders, must provide timely notice in writing. To be timely, a stockholder's notice must be delivered to or mailed and received at our principal executive offices not more than 120 days or less than 90 days prior to the anniversary date of the immediately preceding Annual Meeting of Stockholders. However, in the event that the Annual Meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder in order to be timely must be received not later than the close of business on the 10th day following the date on which notice of the date of the Annual Meeting was mailed to stockholders or made public, whichever first occurs. Our restated bylaws specify requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an Annual Meeting of Stockholders or from making nominations for Directors at an Annual Meeting of Stockholders.

Any stockholder wishing to submit a candidate for election to our Board of Directors should follow the procedures outlined in Director Nominations. For all other proposals, as to each matter of business proposed, the stockholder should send the following information to the Corporate Secretary, Stereotaxis, Inc., 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108:

A brief description of the business desired to be brought before the meeting and the reasons for conducting such business;



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The text of the business (including the text of any resolutions proposed and the language of any proposed amendment to our charter documents);

The name and address, as they appear in our stockholder records, of the stockholder(s) proposing such business;

The class and number of shares of the stock which are beneficially owned by the proposing stockholder(s);

Any material interest of the proposing stockholder(s) in such business; and

A statement as to whether either the proposing stockholder(s) intend(s) to deliver a proxy statement and form of proxy to holders of, in the case of the proposal, at least the percentage of the Company's voting shares required under applicable law to carry the proposal.

A more complete description of this process is set forth in our bylaws.

**B. HOUSEHOLDING OF PROXIES**

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for annual reports and proxy statements with respect to two or more stockholders sharing the same address by delivering a single annual report and/or proxy statement addressed to those stockholders. This process is commonly referred to as householding. The Company and some brokers household annual reports and proxy materials, delivering a single annual report and/or proxy statement to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders.

Once you have received notice from your broker or the Company that your broker or we will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate annual report and/or proxy statement in the future, please notify your broker if your shares are held in a brokerage account or us if you hold registered shares. If, at any time, you and another stockholder sharing the same address wish to participate in householding and prefer to receive a single copy of our annual report and/or proxy statement, please notify your broker if your shares are held in a brokerage account or us if you hold registered shares.

You may request to receive at any time a separate copy of our proxy materials or our Annual Report, or notify us that you do or do not wish to participate in householding by sending a written request to our Corporate Secretary at 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108, or by telephoning 314-678-6100. We will deliver such materials to you promptly upon such request.

**C. OTHER INFORMATION**

The Board of Directors knows of no matter, other than those referred to in this proxy statement, which will be presented at the meeting. However, if any other matters, including a stockholder proposal excluded from this proxy statement pursuant to the rules of the SEC, properly come before the meeting or any of its adjournments, the person or persons voting the proxies will vote in accordance with their best judgment on such matters. Should any nominee for Director be unable to serve or for good cause will not serve at the time of the meeting or any adjournments thereof, the persons named in the proxy will vote for the election of such other person for such directorship as the Board of Directors may recommend, unless, prior to the meeting, the Board has eliminated that directorship by reducing the size of the Board. The Board is not aware that any nominee herein will be unable to serve or for good cause will not serve as a Director.

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The Company will bear the expense of preparing, printing and mailing this proxy material, as well as the cost of any required solicitation. Directors, officers or employees of the Company may solicit proxies on behalf of the Company. In addition, the Company will reimburse banks, brokerage firms, and other custodians, nominees and fiduciaries for reasonable expenses incurred in forwarding proxy materials to beneficial owners of the Company's stock and obtaining their proxies.

You are urged to vote promptly. You may revoke your proxy at any time before it is voted; and if you attend the meeting, as we hope you will, you may vote your shares in person. In addition, we will furnish, without charge, copies of exhibits to our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Commission, upon the written request of any person who is a stockholder as of the Record Date, upon payment of a reasonable fee which shall not exceed our reasonable expenses in connection therewith. Requests for such materials should be directed to Stereotaxis, Inc., 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108, Attention: Assistant Secretary. Such information may also be obtained free of charge by accessing the Commission's web site at [www.sec.gov](http://www.sec.gov).

April 17, 2008

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**Exhibit A**

**NOMINATING AND CORPORATE GOVERNANCE COMMITTEE CHARTER**

**STEREOTAXIS, INC.**

**(Adopted: March 2004)**

**(Revised: May 24, 2007)**

**I. STATEMENT OF PURPOSE**

The Nominating and Corporate Governance Committee (the "Committee") will assist the Board of Directors (the "Board") of Stereotaxis, Inc. (the "Company") in evaluating potential Director nominees, overseeing the composition and structure of the Board and the committees thereof and developing and implementing the Company's corporate governance standards.

**II. COMPOSITION OF THE COMMITTEE**

The Committee shall be comprised of at least three members of the Board of Directors, with the number of members to be determined from time to time by the Board. The members shall be designated by the Board of Directors, and all members of the Committee shall be independent pursuant to Rule 4200(a)(15) of The Nasdaq Stock Market Rules (except as permitted by Rule 4350(c)(4)(C)), or the applicable rule governing director independence of such other national market system or exchange on which the Company's stock may be traded from time to time, or any successor rules.

**III. MEETINGS**

The Committee shall meet at least two (2) times annually, or more frequently as the Committee may from time to time determine may be appropriate. Unless the Board has previously designated the Chair, the members of the Committee shall designate a Chair by majority vote. Two or more committee members shall constitute a quorum.

Teleconferences may also be held at such other times as shall be reasonably requested by the Chair of the Board, Chair of the Committee, independent auditor, or the Company's financial management.

At the invitation of the Committee Chair, the meetings will be attended by the Chair of the Board, Chief Executive Officer, representatives from any director search firm retained by the Company, and/or other persons as are appropriate to matters under consideration.

**IV. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE.**

The duties and responsibilities of the Committee shall include the following:

1. Oversee the structure and operations of the Board and suggest to the Board any recommended changes thereto.
2. The Committee shall adopt (i) a policy regarding the Committee's consideration of candidates proposed by shareholders; (ii) a description of the minimum criteria, as well as special skills and qualities, that the Committee believes are necessary for one or more of the Company's Directors to possess; and (iii) a description of the Committee's process for identifying and evaluating Director nominees (including candidates recommended by shareholders).
3. The Committee shall identify, evaluate and recommend to the Board for determination all nominees for Board membership, whether such nominees are for the slate of Director nominees to be proposed to shareholders or nominees to be elected by the Board to fill vacancies on the Board.



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4. The Committee identifies potential Director nominees from numerous sources, including, but not limited to, other members of the Board, members of the Company's management, director search firms and the Company's shareholders.
5. Recommend to the Board committee structure and responsibilities, committee appointments, committee chairs and the rotation of chairperson and committee appointments as the Committee may determine to be in the best interests of the Company.
6. Evaluate the effect of any change in the personal or professional status of any Director and request that the Board request the resignation of any such Director if necessary.
7. Develop and recommend to the Board a set of corporate governance guidelines and principles applicable to the Company and review issues that arise in connection with such guidelines and principles.
8. Develop and adopt a set of healthcare compliance policies applicable to the Company, covering such areas as the Committee may determine useful or necessary to the Company, and review issues that arise in connection with such guidelines and principles.
9. Discuss at least annually with the Company's designated healthcare and/or corporate compliance officer the effectiveness of the Company's healthcare compliance and training policies and programs.
10. The Committee shall have the authority to engage independent advisors, including director search firms, at Company expense, as the Committee may determine necessary in carrying out its responsibilities hereunder.
11. Review this Charter on an annual basis and make recommendations to the Board of Directors concerning any changes deemed appropriate.
12. Report actions of the Committee periodically to the Board of Directors with such recommendations for action as the Committee deems appropriate.
13. Maintain minutes or other records, either separately or within the minutes of the Board of Directors, of meetings and activities of the Committee.

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**Exhibit B**

**STEREOTAXIS, INC.**

**2002 STOCK INCENTIVE PLAN**

**As Amended and Restated effective May 29, 2008 (if approved at the 2008 Annual Meeting)**

**1. Objectives.**

The Stereotaxis, Inc. 2002 Stock Incentive Plan (the *Plan*) is designed to attract, motivate and retain selected employees of, and other individuals providing services to, the Company. These objectives are accomplished by making long-term incentive and other awards under the Plan, thereby providing Participants with a proprietary interest in the growth and performance of the Company.

**2. Definitions.**

(a) *Awards* The grant of any form of stock option, performance share award, or restricted stock award, whether granted singly, in combination or in tandem, to a Participant pursuant to such terms, conditions, performance requirements, limitations and restrictions as the Committee may establish in order to fulfill the objectives of the Plan.

(b) *Award Agreement* An agreement between the Company and a Participant that sets forth the terms, conditions, performance requirements, limitations and restrictions applicable to an Award.

(c) *Board* The Board of Directors of the Company.

(d) *Change of Control* The purchase or other acquisition (other than from the Company) by any person, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the *Exchange Act*) (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then-outstanding shares of common stock of the Company or the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of directors; or

Individuals who, as of the date hereof, constitute the Board (as of the date hereof, the *Incumbent Board*) cease for any reason to constitute at least a majority of the Board, provided that any person who becomes a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this section, considered as though such person were a member of the Incumbent Board; or

The consummation of a reorganization, merger or consolidation, in each case with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of, respectively, the common stock and the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated corporation's then-outstanding voting securities, or of a liquidation or dissolution of the Company or of the sale of all or substantially all of the assets of the Company.

(e) *Code* The Internal Revenue Code of 1986, as amended from time to time.

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- (f) *Committee* The committee designated by the Board to administer the Plan and chosen from those of its members, or, in the absence of any such Committee, the Board.
- (g) *Company* Stereotaxis, Inc., a Delaware corporation.
- (h) *Fair Market Value* The last sale price, regular way, or, in case no such sale takes place on such date, the average of the closing bid and asked prices, regular way, of the Shares, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange, Inc. (the NYSE ) or, if the Shares are not listed or admitted to trading on the NYSE, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Shares are listed or admitted to trading or, if the Shares are not listed or admitted to trading on any national securities exchange, the last quoted sale price on such date or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market on such date, as reported by the National Association of Securities Dealers, Inc. Automated Quotations System or such other system then in use, or, if on any such date the Shares are not quoted by any such organization, the average of the closing bid and asked prices on such date as furnished by a professional market maker making a market in the Shares selected by the Committee. If the Shares are not publicly held or so listed or publicly traded, the determination of the Fair Market Value per Share shall be made in good faith by the Committee.
- (i) *Fiscal Year* The fiscal year of the Company, as the same may be changed from time to time.
- (j) *Incentive Stock Option* A stock option intended to meet the requirements of Section 422 of the Code and the regulations thereunder.
- (k) *Nonqualified Stock Option* A stock option which is not an Incentive Stock Option.
- (l) *Participant* An individual to whom an Award has been made under the Plan. Awards may be made to employees of the Company, or any of its subsidiaries (including subsidiaries of subsidiaries), or any other entity in which the Company has a significant equity or other interest, as determined by the Committee, as well as individuals providing services to the Company; provided, that Incentive Stock Options may only be granted to employees of the Company or any of its subsidiaries (including subsidiaries of subsidiaries).
- (m) *Performance Period* A period of one or more consecutive Fiscal Years over which one or more of the performance criteria listed in Section 5(e) shall be measured pursuant to the grant of Awards (whether such Awards take the form of stock options, performance share awards, long term cash incentives or stock ownership incentive awards). Performance Periods may overlap one another.
- (n) *Shares or Stock* Authorized and issued or unissued shares of common stock of the Company.

**3. Stock Available for Awards.**

Subject to adjustment pursuant to Section 12, the number of shares that may be issued under the Plan for Awards granted wholly or partly in stock during the term of the Plan is 8,610,998.<sup>1</sup> Shares of Stock may be made available from the authorized but unissued shares of the Company, from shares held in the Company's treasury and not reserved for some other purpose, or from shares purchased on the open market. For purposes of determining the number of shares of Stock issued under the Plan, no shares shall be deemed issued until they are

<sup>1</sup> The shares available include (i) the 1,500,000 share increase as approved by the stockholders on May 29, 2008, (ii) the 1,000,000 share increase as approved by the stockholders on May 24, 2007, (iii) the shares originally included in the Plan and that were available under the Stereotaxis, Inc. 1994 Stock Option Plan, and (iv) the shares that were added annually on January 1, 2003, 2004, 2005, 2006 and 2007, respectively, pursuant to the terms of the Plan. Each of the foregoing share amounts reflect the 1-for-3.6 reverse stock split completed in July 2004.

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actually delivered to a Participant, or such other person in accordance with Section 9. Shares covered by Awards that either wholly or in part are not earned, or that expire or are forfeited, terminated, canceled, settled in cash, payable solely in cash or exchanged for other Awards, shall be available for future issuance under Awards. Further, shares tendered to the Company in connection with the exercise of stock options, or withheld by the Company for the payment of tax withholding on any Award, shall also be available for future issuance under Awards; provided, however, that not more than 5,194,851 shares may be used for the grant of Incentive Stock Options.

**4. Administration.**

The Plan shall be administered by the Committee, which shall have full power to select Participants, to interpret the Plan, and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper. A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present and acts approved in writing by a majority of the Committee in lieu of a meeting shall be deemed acts of the Committee. Each member of the Committee is entitled to, in good faith, rely upon any report or other information furnished to that member by any officer or other associate of the Company, any subsidiary, the Company's certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

**5. Awards.**

The Committee shall determine the type or types of Award(s) to be made to each Participant and shall set forth in the related Award Agreement the terms, conditions, performance requirements, limitations and restrictions applicable to each Award. Awards may include but are not limited to those listed in this Section 5. Awards may be granted singly, in combination or in tandem. Awards may also be made in combination or in tandem with, in replacement or payment of, or as alternatives to, grants, rights or compensation earned under any other plan of the Company, including the plan of any acquired entity.

(a) **Stock Option** A stock option is a grant of a right to purchase a specified number of shares of Stock at a stated price. The exercise price of Incentive Stock Options and Nonqualified Stock Options shall be not less than 100% of Fair Market Value on the date of grant. No individual may be granted options to purchase more than 277,777<sup>2</sup> shares during any Fiscal Year.

(b) **Performance Share Award** A performance share award is an Award denominated in units of stock. Performance share awards will provide for the payment of stock if performance goals are achieved over specified Performance Periods.

(c) **Restricted Stock Award** A restricted stock award is an Award of Stock which will vest over time or if performance or other goals are achieved over specified Performance Periods. Restricted Stock Awards subject only to time-based vesting shall have a minimum three year vesting period (provided such awards may vest ratably over such period). Performance-based Restricted Stock Awards shall have a minimum one year vesting period, in addition to the achievement of the performance criteria set forth in the award.

(d) **Performance Criteria under section 162(m) of the Code for Performance Share Awards, and Restricted Stock Awards** The performance criteria for performance share awards and restricted stock awards made to any covered employee (as defined by section 162(m) of the Code) and which are intended to qualify as performance-based compensation under section 162(m)(C) thereof, shall consist of objective tests based on one or more of the following: the Company's earnings per share growth; earnings; earnings per share; cash flow; customer satisfaction; revenues; financial return ratios; market performance; shareholder return and/or value; operating profits (including earnings before income taxes, depreciation and amortization); net profits; profit returns and margins; stock price; working capital; business trends; production cost; project milestones; and plant and equipment performance.

2. Adjusted to reflect the 1-for-3.6 reverse split completed in July, 2004



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(e) Nothing herein shall preclude the Committee from making any payments or granting any Awards whether or not such payments or Awards qualify for tax deductibility under section 162(m) of the Code. No payments are to be made to a Participant if the applicable performance criteria are not achieved for a given Performance Period. If the applicable performance criteria are achieved for a given Performance Period, the Committee has full discretion to reduce or eliminate the amount otherwise payable for that Performance Period. Under no circumstances may the Committee use discretion to increase the amount payable to a Participant under a performance share award, or a restricted stock.

**6. Payment of Awards.**

Payment of Awards may be made in the form of cash, stock or combinations thereof and may include such restrictions as the Committee shall determine. Further, payments may be deferred, either in the form of installments or as a future lump-sum payment, in accordance with such procedures as may be established from time to time by the Committee. Dividends or dividend equivalent rights may be extended to and made part of any Award denominated in stock or units of stock, subject to such terms, conditions and restrictions as the Committee may establish. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividend equivalents for deferred payments denominated in stock or units of stock. At the discretion of the Committee, a Participant may be offered an election to substitute an Award for another Award or Awards of the same or different type.

**7. Stock Option Exercise.**

The price at which shares of Stock may be purchased under a stock option shall be paid in full in cash at the time of the exercise or, if permitted by the Committee, by means of tendering Stock or surrendering another Award or any combination thereof. The Committee may determine other acceptable methods of tendering Stock or other Awards and may impose such conditions on the use of Stock or other Awards to exercise a stock option as it deems appropriate. In addition, the optionee may effect a cashless exercise of a stock option in which the option shares are sold through a broker and a portion of the proceeds to cover the exercise price is paid to the Company, or otherwise in accordance with the rules and procedures adopted by the Committee.

**8. Tax Withholding.**

Prior to the payment or settlement of any Award, the Participant must pay, or make arrangements acceptable to the Company for the payment of, any and all federal, state and local tax withholding that in the opinion of the Company is required by law. The Company shall have the right to deduct applicable taxes from any Award payment and withhold, at the time of delivery or vesting of shares of stock under the Plan, an appropriate number of shares for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes.

**9. Transferability.**

No Award shall be transferable or assignable, or payable to or exercisable by, anyone other than the Participant to whom it was granted, except (a) by law, will or the laws of descent and distribution, (b) as a result of the disability of a Participant or (c) that the Committee (in the form of an Award Agreement or otherwise) may permit transfers of Awards (other than Incentive Stock Options) by gift or otherwise to a member of a Participant's immediate family and/or trusts whose beneficiaries are members of the Participant's immediate family, or to such other persons or entities as may be approved by the Committee.

**10. Amendment, Modification, Suspension or Discontinuance of the Plan.**

The Board may amend, modify, suspend or terminate the Plan for the purpose of meeting or addressing any changes in law or other legal requirements or for any other purpose permitted by law; provided, however,

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that no such amendment, modification, suspension or termination of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant. Unless otherwise required by law, no such amendment shall require the approval of stockholders.

### **11. Termination of Employment.**

If the employment of a Participant terminates, the status of the Award shall be as set forth in the Award Agreement.

### **12. Adjustments.**

In the event of any change in the outstanding Stock of the Company by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, the Committee shall adjust appropriately: (a) the number of shares or kind of Stock (i) available for issuance under the Plan, (ii) for which Awards may be granted to an individual Participant set forth in Section 5, and (iii) covered by outstanding Awards denominated in stock or units of stock; (b) the exercise and grant prices related to outstanding Awards; and (c) the appropriate Fair Market Value and other price determinations for such Awards. In the event of any other change affecting the Stock or any distribution (other than normal cash dividends) to holders of Stock, such adjustments in the number and kind of shares and the exercise, grant and conversion prices of the affected Awards as may be deemed equitable by the Committee, including adjustments to avoid fractional shares, shall be made to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Committee shall be authorized to cause to issue or assume stock options, whether or not in a transaction to which section 424(a) of the Code applies, by means of substitution of new stock options for previously issued stock options or an assumption of previously issued stock options. In such event, the aggregate number of shares of Stock available for issuance under Awards under Section 3, including the individual Participant maximums set forth in Section 5, will be increased to reflect such substitution or assumption.

### **13. Acceleration.**

The vesting schedule of any Award will not accelerate except in the cases of death, disability or retirement of the Participant or a Change of Control of the Company.

### **14. Miscellaneous.**

(a) Any notice to the Company required by any of the provisions of the Plan shall be addressed to the chief human resources officer of the Company in writing, and shall become effective when it is received.

(b) The Plan shall be unfunded and the Company shall not be required to establish any special account or fund or to otherwise segregate or encumber assets to ensure payment of any Award.

(c) Nothing contained in the Plan shall prevent the Company from adopting other or additional compensation arrangements or plans, subject to stockholder approval if such approval is required, and such arrangements or plans may be either generally applicable or applicable only in specific cases.

(d) No Participant shall have any claim or right to be granted an Award under the Plan and nothing contained in the Plan shall be deemed or be construed to give any Participant the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge any Participant at any time without regard to the effect such discharge may have upon the Participant under the Plan. Except to the extent otherwise provided in any plan or in an Award Agreement, no Award under the Plan shall be deemed compensation for purposes of computing benefits or contributions under any other plan of the Company.

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(e) The Plan and each Award Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Missouri, County of St. Louis, to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

(f) The Committee shall have full power and authority to interpret the Plan and to make any determinations thereunder, and the Committee's determinations shall be binding and conclusive. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among individuals, whether or not such individuals are similarly situated.

(g) If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended or limited in scope to conform to applicable laws or, in the discretion of the Committee, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

(h) The Plan was adopted by the Board on March 25, 2002 subject to approval of the stockholders of the Company within 12 months of the date it was adopted. Awards may be granted prior to such approval, but no such Award may be exercised, vested or settled prior to such approval, and if such approval is not obtained, any such Award shall be void ab initio and of no force or effect. If such approval is obtained, no further awards shall be granted under the Stereotaxis, Inc. 1994 Stock Option Plan.

(i) Subject to earlier termination pursuant to Section 10, the Plan will terminate on March 25, 2012. Awards outstanding at the termination of the Plan will not be affected by such termination.

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES LISTED BELOW AND FOR PROPOSALS 2 AND 3. Please ..

IF NO CHOICE IS SELECTED, THE PROXY WILL VOTE YOUR SHARES IN ACCORDANCE WITH SUCH RECOMMENDATION. Mark Here

for Address

Change or

Comments

**SEE REVERSE SIDE**

For all Withhold Exceptions

		for all				FOR	AGAINST	ABSTAIN
1.	To elect two Class I directors to serve until our 2011 annual meeting of stockholders; Nominee for Class I:	..	..	..		..	..	..
						FOR	AGAINST	ABSTAIN
						..	..	..
01 -	David W. Benfer							
02	Eric N. Prystowsky, M.D.							
(INSTRUCTIONS: To withhold authority to vote for any individual nominee, strike a line through that nominee's name and check the Exceptions box above)					4.	In their discretion, the proxies are authorized to vote upon any other business as may properly come before the meeting.		

I PLAN TO ATTEND

THE MEETING ..

Please sign, date and return the proxy promptly, using the enclosed envelope.

If no box is marked with respect to proposals 1, 2 or 3 above, the undersigned will have been deemed to vote for such proposals, and in the discretion of the proxy holders, for such other business as may properly come before the meeting.

Signature

Signature

Date

**NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.**

Ù FOLD AND DETACH HERE Ù

**WE ENCOURAGE YOU TO TAKE ADVANTAGE OF INTERNET OR TELEPHONE VOTING,**

**BOTH ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.**

**Internet and telephone voting is available through 11:59 PM Eastern Time**

Edgar Filing: Stereotaxis, Inc. - Form DEF 14A

the day prior to annual meeting day.

Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

**INTERNET**

**<http://www.proxyvoting.com/stxs>**

**TELEPHONE**

**1-866-540-5760**

**OR**

Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

Choose **MLink<sup>SM</sup>** for fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect<sup>®</sup>** at [www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd) where step-by-step instructions will prompt you through enrollment.

You can view the Annual Report and Proxy Statement on the Internet at <http://bnymellon.mobular.net/bnymellon/stxs>

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**PROXY**

**STEREOTAXIS, INC.**

**Annual Meeting of Stockholders May 29, 2008**

**THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF THE COMPANY**

The undersigned hereby appoints Fred A. Middleton, Bevil J. Hogg and James M. Stolze, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Stereotaxis, Inc. Common Stock which the undersigned is entitled to vote, and, in their discretion, to vote upon such other business as may properly come before the Annual Meeting of Stockholders of the company to be held May 29, 2008 or at any adjournment or postponement thereof, with all powers which the undersigned would possess if present at the Meeting.

**(Continued and to be marked, dated and signed, on the other side)**

**Address Change/Comments (Mark the corresponding box on the reverse side)**

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