

AtriCure, Inc.
Form 10-Q
July 31, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number 000-51470

AtriCure, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

34-1940305
(I.R.S. Employer
Identification No.)

6217 Centre Park Drive
West Chester, OH 45069
(Address of principal executive offices)

(513) 755-4100
(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES NO

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at July 24, 2015 |
|--------------------------------|-------------------------------------|
| Common Stock, \$.001 par value | 28,537,331 |

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ATRICURE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands, Except Per Share Amounts)****(Unaudited)**

| | June 30, 2015 | December 31, 2014 |
|--|--------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 29,987 | \$ 28,384 |
| Short-term investments | 24,492 | 31,265 |
| Accounts receivable, less allowance for doubtful accounts of \$184 and \$68, respectively | 17,590 | 17,558 |
| Inventories | 16,073 | 14,257 |
| Other current assets | 2,597 | 2,044 |
| Total current assets | 90,739 | 93,508 |
| Property and equipment, net | 19,352 | 11,552 |
| Long-term investments | 5,209 | 8,894 |
| Intangible assets, net | 8,272 | 8,878 |
| Goodwill | 35,386 | 35,386 |
| Other noncurrent assets | 351 | 186 |
| Total Assets | \$ 159,309 | \$ 158,404 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 9,344 | \$ 7,621 |
| Accrued liabilities | 11,560 | 14,041 |
| Other current liabilities and current maturities of capital leases | 9,237 | 3,981 |
| Total current liabilities | 30,141 | 25,643 |
| Capital leases | 68 | 74 |
| Other noncurrent liabilities | 409 | 149 |
| Total Liabilities | 30,618 | 25,866 |
| Commitments and contingencies (Note 7) | | |
| Stockholders Equity: | | |

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| | | |
|--|------------|------------|
| Common stock, \$0.001 par value, 90,000 shares authorized and 28,537 and 27,580 issued and outstanding, respectively | 28 | 28 |
| Additional paid-in capital | 277,787 | 271,282 |
| Accumulated other comprehensive loss | (543) | (348) |
| Accumulated deficit | (148,581) | (138,424) |
| Total Stockholders' Equity | 128,691 | 132,538 |
| Total Liabilities and Stockholders' Equity | \$ 159,309 | \$ 158,404 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ATRICURE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(In Thousands, Except Per Share Amounts)****(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | \$ 32,583 | \$ 26,514 | \$ 62,469 | \$ 51,361 |
| Cost of revenue | 9,466 | 7,733 | 17,617 | 14,923 |
| Gross profit | 23,117 | 18,781 | 44,852 | 36,438 |
| Operating expenses: | | | | |
| Research and development expenses | 5,862 | 4,569 | 11,471 | 8,570 |
| Selling, general and administrative expenses | 22,074 | 17,065 | 43,344 | 38,646 |
| Total operating expenses | 27,936 | 21,634 | 54,815 | 47,216 |
| Loss from operations | (4,819) | (2,853) | (9,963) | (10,778) |
| Other income (expense): | | | | |
| Interest expense | (17) | (29) | (35) | (266) |
| Interest income | 43 | 23 | 86 | 37 |
| Other | (90) | 172 | (231) | 638 |
| Loss before income tax expense | (4,883) | (2,687) | (10,143) | (10,369) |
| Income tax expense | 8 | 5 | 14 | 32 |
| Net loss | \$ (4,891) | \$ (2,692) | \$ (10,157) | \$ (10,401) |
| Basic and diluted net loss per share | \$ (0.18) | \$ (0.10) | \$ (0.37) | \$ (0.40) |
| Weighted average shares outstanding basic and diluted | 27,304 | 26,849 | 27,187 | 25,813 |
| Comprehensive loss: | | | | |
| Unrealized gains (losses) on investments | \$ 2 | \$ (11) | \$ 39 | \$ (13) |
| Foreign currency translation adjustment | 253 | (28) | (234) | (26) |
| Other comprehensive income (loss) | 255 | (39) | (195) | (39) |
| Net loss | (4,891) | (2,692) | (10,157) | (10,401) |
| Comprehensive loss | \$ (4,636) | \$ (2,731) | \$ (10,352) | \$ (10,440) |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ATRICURE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)****(Unaudited)**

| | Six Months Ended June 30, | |
|--|----------------------------------|-----------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net loss | \$ (10,157) | \$ (10,401) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Share-based compensation expense | 4,141 | 3,988 |
| Depreciation | 2,087 | 1,506 |
| Amortization of intangible assets | 606 | 711 |
| Amortization of deferred financing costs | 31 | 80 |
| Loss on disposal of property and equipment | 63 | 14 |
| Realized loss from foreign exchange on intercompany transactions | 302 | |
| Amortization/accretion on investments | 339 | 163 |
| Change in allowance for doubtful accounts | 117 | 32 |
| Change in value of contingent consideration | | (2,662) |
| Other | | 95 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (468) | (1,448) |
| Inventories | (1,977) | (2,457) |
| Other current assets | (538) | 572 |
| Accounts payable | 1,128 | (936) |
| Accrued liabilities | (2,196) | (6,704) |
| Other noncurrent assets and liabilities | 128 | (926) |
| Net cash used in operating activities | (6,394) | (18,373) |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale securities | (10,302) | (27,322) |
| Sales and maturities of available-for-sale securities | 20,460 | 13,749 |
| Purchases of property and equipment | (4,077) | (2,475) |
| Increases in property under build-to-suit obligation | (4,806) | |
| Net cash provided by (used in) investing activities | 1,275 | (16,048) |
| Cash flows from financing activities: | | |
| Proceeds from sale of stock, net of offering costs of \$0 and \$257, respectively | | 65,830 |
| Payments on debt and capital leases | (25) | (6,352) |
| Increases in build-to-suit obligation | 4,806 | |
| Payment of debt fees and premium on retirement of debt | (62) | (169) |
| Proceeds from stock option exercises | 1,854 | 1,637 |
| Shares repurchased for payment of taxes on stock awards | (572) | (153) |

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| | | |
|---|-----------|-----------|
| Proceeds from issuance of common stock under employee stock purchase plan | 906 | 708 |
| Net cash provided by financing activities | 6,907 | 61,501 |
| Effect of exchange rate changes on cash and cash equivalents | (185) | 6 |
| Net increase in cash and cash equivalents | 1,603 | 27,086 |
| Cash and cash equivalents beginning of period | 28,384 | 14,892 |
| Cash and cash equivalents end of period | \$ 29,987 | \$ 41,978 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 3 | \$ 109 |
| Cash paid for taxes | 20 | 146 |
| Non-cash investing and financing activities: | | |
| Accrued purchases of property and equipment | 1,652 | 137 |
| Assets acquired through capital lease | 36 | 8 |

See accompanying notes to condensed consolidated financial statements.

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business AtriCure, Inc. was incorporated in the State of Delaware on October 31, 2000. The Company or AtriCure consists of AtriCure, Inc. and its wholly-owned subsidiaries. The Company is an innovator in surgical treatments for atrial fibrillation (Afib) and left atrial appendage management (LAAM). The Company sells its products to medical centers globally through a direct sales force and distributors.

Basis of Presentation The accompanying interim financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying interim financial statements are unaudited, but in the opinion of the Company's management, contain all of the normal, recurring adjustments considered necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to interim periods. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted or condensed. The Company believes the disclosures herein are adequate to make the information presented not misleading. Results of operations are not necessarily indicative of the results expected for the full fiscal year or for any future period.

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited financial statements of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC.

Principles of Consolidation The Condensed Consolidated Financial Statements include the accounts of the Company, AtriCure, LLC, the Company's wholly-owned subsidiary organized in the State of Delaware, Endoscopic Technologies, LLC, the Company's wholly-owned subsidiary organized in the State of Delaware, and AtriCure Europe B.V. (AtriCure Europe), the Company's wholly-owned subsidiary incorporated in the Netherlands. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents The Company considers highly liquid investments with maturities of three months or less at the date of acquisition as cash equivalents.

Investments The Company places its investments primarily in U.S. Government agencies and securities, corporate bonds and commercial paper. The Company classifies all investments as available-for-sale. Investments with maturities of less than one year are classified as short-term investments. Investments are recorded at fair value, with unrealized gains and losses recorded as accumulated other comprehensive income (loss). The Company recognizes gains and losses when these securities are sold using the specific identification method and includes them in interest income or expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Revenue Recognition The Company accounts for revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605, Revenue Recognition (ASC 605). The Company recognizes revenue when all of the following criteria are met: (i) there is persuasive evidence that an arrangement exists;

(ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured.

Pursuant to the Company's standard terms of sale, revenue is recognized when title to the goods and risk of loss transfers to customers and there are no remaining obligations that will affect the customer's final acceptance of the sale. Generally, the Company's standard terms of sale define the transfer of title and risk of loss to occur upon shipment to the respective customer. The Company generally does not maintain any post-shipping obligations to the recipients of the products. No installation, calibration or testing of this equipment is performed by the Company subsequent to shipment to the customer in order to render it operational.

Revenue includes shipping and handling revenue of \$271 and \$236 for the three months ended June 30, 2015 and 2014, respectively, and \$518 and \$463 for the six months ended June 30, 2015 and 2014, respectively. Cost of freight for shipments made to customers is included in cost of revenue. Sales and other value-added taxes collected from customers and remitted to governmental authorities are excluded from revenue. The Company sells its products primarily through a direct sales force, with certain international markets sold through distributors. Terms of sale are generally consistent for both end-users and distributors except that payment terms are generally net 30 days for end-users and net 60 days for distributors.

Sales Returns and Allowances The Company maintains a provision for sales returns and allowances to account for potential returns of defective or damaged products, products shipped in error and invoice adjustments. The Company estimates such provision quarterly based primarily on a specific identification basis, in addition to estimating a general reserve. Increases to the provision result in a reduction of revenue. The provision is included in accrued liabilities in the Condensed Consolidated Balance Sheets.

Table of Contents**ATRICURE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts)****(Unaudited)**

Allowance for Doubtful Accounts Receivable The Company evaluates the collectability of accounts receivable in order to determine the appropriate reserve for doubtful accounts. In determining the amount of the reserve, the Company considers aging of account balances, historical credit losses, customer-specific information and other relevant factors. An increase to the allowance for doubtful accounts results in a corresponding increase in expense. The Company reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables against the allowance when all attempts to collect the receivable have failed. The Company's history of write-offs against the allowance has not been significant.

Inventories Inventories are stated at the lower of cost or market using approximate costs based on the first-in, first-out cost method (FIFO) and consist of raw materials, work in process and finished goods. The Company's industry is characterized by rapid product development and frequent new product introductions. Uncertain timing of product approvals, variability in product launch strategies and variation in product utilization all impact excess and obsolete inventory. An inventory allowance is based on product usage is estimated and recorded quarterly for excess, slow moving and obsolete inventory, as well as inventory with a carrying value in excess of its net realizable value. Write-offs are recorded when a product is destroyed. The Company's history of write-offs against the allowance has not been significant.

Inventories consist of the following:

| | June 30, 2015 | December 31, 2014 |
|-----------------|----------------------|------------------------------|
| Raw materials | \$ 5,286 | \$ 4,429 |
| Work in process | 1,251 | 1,397 |
| Finished goods | 9,536 | 8,431 |
| Inventories | \$ 16,073 | \$ 14,257 |

Property and Equipment Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method of depreciation for financial reporting purposes and applied over the estimated useful lives of the assets. The estimated useful life by major asset category is the following: generators and other capital equipment, machinery, equipment and vehicles is three to seven years, computer and other office equipment is three years, furniture and fixtures is three to seven years and leasehold improvements and equipment leased under a capital lease are the shorter of their useful life or remaining lease term. The Company reassesses the useful lives of property and equipment annually, and assets are retired if they are no longer in service. Maintenance and repair costs are expensed as incurred.

Generators and other capital equipment (such as the Company's switchbox units and cryosurgical consoles) are loaned at no cost to direct customers that use the Company's disposable products. Depreciation of such assets is included in cost of revenue. The estimated useful lives of this equipment are based on anticipated usage by customers and the timing and impact of expected new technology rollouts by the Company. To the extent the Company experiences changes in the usage of this equipment or introduces new technologies, the estimated useful lives of this equipment may change in a future period. Depreciation related to these generators was \$673 and \$498 for the three months ended June 30, 2015 and 2014, respectively, and \$1,293 and \$959 for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and December 31, 2014, the net carrying amount of loaned equipment included in net property and equipment in the Condensed Consolidated Balance Sheets was \$4,799 and \$4,141, respectively.

The Company reviews property and equipment for impairment using its best estimates based on reasonable and supportable assumptions and projections.

Intangible Assets Intangible assets with determinable useful lives are amortized on a straight-line basis over the estimated periods benefited. The Company reviews intangible assets for impairment using its best estimates based on reasonable and supportable assumptions and projections.

Goodwill Goodwill represents the excess of purchase price over the fair value of the net assets acquired in business combinations. The Company tests goodwill for impairment annually on November 30, or more often if impairment indicators are present. The Company's goodwill is accounted for in a single reporting unit representing the Company as a whole.

Other Current Liabilities and Current Maturities of Capital Leases Other current liabilities consist of a financing obligation related to the construction of the Company's new headquarters (see Note 7 Commitments and Contingencies). Current maturities of capital leases consist of capital lease obligations with maturities of less than one year (see Note 6 Indebtedness).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Other Income Other income consists primarily of foreign currency transaction gains and losses, grant income and non-employee option gains and losses related to the fair market value change for fully vested options outstanding for consultants which are accounted for as free-standing derivatives.

The Company recorded net foreign currency transaction (losses) gains of (\$46) and \$16 for the three months ended June 30, 2015 and 2014, respectively, and (\$209) and \$21 for the six months ended June 30, 2015 and 2014, respectively, primarily in connection with settlements of its intercompany balance with AtriCure Europe.

The Company periodically is awarded grants to support research and development activities or education activities. The Company recognizes grant income when the funds are earned. The Company recorded grant income of \$0 and \$137 during the three months ended June 30, 2015 and 2014, respectively. Grant income of \$35 and \$500 was recorded for the six month periods ended June 30, 2015 and 2014, respectively.

The Company historically issued stock options to non-employee consultants as a form of compensation for services provided to the Company. Because the non-employee options require settlement by the Company's delivery of registered shares and because the tax withholding provisions in the awards allow the options to be partially net-cash settled, these options, when vested, are no longer eligible for equity classification and are, thus, subsequently accounted for as derivative liabilities under FASB ASC 815, *Derivatives and Hedging* (ASC 815) until the awards are ultimately either exercised or forfeited. Accordingly, the vested non-employee options are classified as liabilities and remeasured at fair value through earnings at each reporting period. During the three months ended June 30, 2015 and 2014, \$44 and (\$19), respectively, of expense (income) was recorded as a result of the remeasurement of the fair value of these fully vested stock options. During the six months ended June 30, 2015 and 2014, \$57 and (\$117), respectively, of expense (income) was recorded as a result of the remeasurement of the fair value of these fully vested stock options.

Taxes Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in the period that includes the enactment date.

The Company's estimate of the valuation allowance for deferred tax assets requires it to make significant estimates and judgments about its future operating results. Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more-likely-than-not that some portion of the deferred tax asset will not be realized. Significant weight is given to evidence that can be objectively verified. The Company evaluates deferred tax assets on a quarterly basis to determine if valuation allowances are required by considering all available evidence. Deferred tax assets are realized by having sufficient future taxable income to allow the related tax benefits to reduce

taxes otherwise payable. The sources of taxable income that may be available to realize the benefit of deferred tax assets are future reversals of existing taxable temporary differences, future taxable income, exclusive of reversing temporary differences and carryforwards, taxable income in carry-back years and tax planning strategies that are both prudent and feasible. In evaluating whether to record a valuation allowance, the applicable accounting standards deem that the existence of cumulative losses in recent years is a significant piece of objectively verifiable negative evidence that must be overcome by objectively verifiable positive evidence to avoid the need to record a valuation allowance. The Company has recorded a full valuation allowance against its net deferred tax assets as it is more-likely-than-not that the benefit of the deferred tax assets will not be recognized in future periods.

A provision of The Patient Protection and Affordable Care Act enacted in 2010, as amended (Affordable Care Act), requires manufacturers of medical devices to pay an excise tax on all U.S. medical device sales. The Company's expense related to the medical device excise tax, which was recorded in cost of revenue, was \$149 and \$116 for the three months ended June 30, 2015 and 2014, respectively, and \$304 and \$230 for the six months ended June 30, 2015 and 2014, respectively.

Net Loss Per Share Basic and diluted net loss per share is computed in accordance with FASB ASC 260, Earnings Per Share (ASC 260) by dividing the net loss by the weighted average number of common shares outstanding during the period. Since the Company has experienced net losses for all periods presented, net loss per share excludes the effect of 4,290 and 3,799 options and restricted stock shares as of June 30, 2015 and 2014, respectively, because they are anti-dilutive. Therefore the number of shares calculated for basic net loss per share is also used for the diluted net loss per share calculation.

Comprehensive Loss and Accumulated Other Comprehensive Loss In addition to net losses, the comprehensive loss includes foreign currency translation adjustments and unrealized gains and losses on investments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Accumulated other comprehensive income (loss) consisted of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Total accumulated other comprehensive (loss) income at beginning of period | \$ (798) | \$ (139) | \$ (348) | \$ (139) |
| <u>Unrealized Gains on Investments</u> | | | | |
| Balance at beginning of period | \$ (17) | \$ (8) | \$ (54) | \$ (6) |
| Other comprehensive income (loss) before reclassifications | 2 | (11) | 39 | (13) |
| Amounts reclassified from accumulated other comprehensive income to other income on the statement of operations | | | | |
| Balance at end of period | \$ (15) | \$ (19) | \$ (15) | \$ (19) |
| <u>Foreign Currency Translation Adjustment</u> | | | | |
| Balance at beginning of period | \$ (781) | \$ (131) | \$ (294) | \$ (133) |
| Other comprehensive income (loss) before reclassifications | 392 | (44) | 68 | (47) |
| Amounts reclassified from accumulated other comprehensive income to other income on the statement of operations | (139) | 16 | (302) | 21 |
| Balance at end of period | \$ (528) | \$ (159) | \$ (528) | \$ (159) |
| Total accumulated other comprehensive loss at end of period | \$ (543) | \$ (178) | \$ (543) | \$ (178) |

Research and Development Research and development costs are expensed as incurred. These costs include compensation and other internal and external costs associated with the development and research related to new and existing products or concepts, preclinical studies, clinical trials, healthcare compliance and regulatory affairs.

Advertising Costs The Company expenses advertising costs as incurred. Advertising costs were not significant during the three or six months ended June 30, 2015 and 2014.

Share-Based Compensation The Company follows FASB ASC 718, Compensation-Stock Compensation (ASC 718) to record share-based compensation for all employee share-based payment awards, including stock options, restricted stock, performance shares and stock purchases related to an employee stock purchase plan, based on estimated fair values. The Company's share-based compensation expense recognized under ASC 718 for the three months ended June 30, 2015 and 2014 was \$2,417 and \$1,846, respectively, and \$4,141 and \$3,988 for the six months ended June 30, 2015 and 2014, respectively, on a before and after tax basis.

FASB ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Condensed Consolidated Statement of Operations and Comprehensive Loss. The expense has been reduced for estimated forfeitures. FASB ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company estimates the fair value of time-based options on the date of grant using the Black-Scholes option-pricing model (Black-Scholes model). The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price, as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. The fair value of market-based performance option grants is estimated at the date of grant using a Monte-Carlo simulation. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

The Company estimates the fair value of restricted stock based upon the grant date closing market price of the Company's common stock. The Company's determination of fair value is affected by the Company's stock price as well as assumptions regarding the number of shares expected to be granted.

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

The Company also has an employee stock purchase plan (ESPP or the Plan) which is available to all eligible employees as defined by the Plan. Under the ESPP, shares of the Company's common stock may be purchased at a discount. The Company estimates the number of shares to be purchased under the Plan and records compensation expense based upon the fair value of the stock at the beginning of the purchase period using the Black-Scholes model.

Use of Estimates The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Fair Value Disclosures The Company classifies and records cash and investments in U.S. government agencies and securities as Level 1 within the fair value hierarchy. Accounts receivable, short-term other assets, accounts payable and accrued liabilities are also classified as Level 1. The carrying amounts of these assets and liabilities approximate their fair value due to their relatively short-term nature. Cash equivalents and investments in commercial paper are classified as Level 2 within the fair value hierarchy (see Note 3 Fair Value for further information). Significant unobservable inputs with respect to the fair value measurement of the Level 3 non-employee stock options are developed using Company data. When an input is changed, the Black-Scholes model is updated and the results are analyzed for reasonableness.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014 the FASB issued a final standard on revenue from contracts with customers. The standard, issued as FASB ASU 2014-09, Revenue from Contracts with Customers (ASU 2014-09), outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. In July 2015 the FASB decided to defer the effective date of ASU 2014-09 for entities reporting under U.S. GAAP from interim and annual reporting periods beginning after December 15, 2016 to interim and annual reporting periods beginning after December 15, 2017 and allow early adoption as of the original effective date. A full retrospective or modified retrospective approach may be taken to adopt the guidance in the ASU. The Company is evaluating the impact of the provisions of ASU 2014-09 on its consolidated financial position, results of operations and related disclosures.

In June 2015 the FASB issued ASU 2015-10, Technical Corrections and Improvements (ASU 2015-10), which amends a wide range of topics in the FASB Accounting Standards Codification. The amendments make minor corrections or minor improvements to the Codification and are effective for fiscal year and interim periods within those fiscal years beginning after December 15, 2015. The Company is reviewing the amendments in ASU 2015-10 and expects that the new guidance will not have a material impact on the Company's financial reporting.

In July 2015 the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (ASU 2015-11), which requires entities to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. ASU 2015-11 is effective prospectively for annual periods beginning after December 15, 2016 and interim periods therein. Early application is permitted. The Company is reviewing the provisions of ASU 2015-11 and expects that the new guidance will not have a material impact on the Company's financial reporting.

3. FAIR VALUE

FASB ASC 820, Fair Value Measurements and Disclosures (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The valuation under this approach does not entail a significant degree of judgment.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The valuation technique for the Company's Level 2 assets is based on quoted market prices for similar assets from observable pricing sources at the reporting date.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The fair value of the Company's Level 3 instruments are estimated on the grant date using the Black-Scholes model and they are revalued at the end of each reporting period using the Black-Scholes model. The fair value of the Company's Level 3 contingent consideration was estimated on the acquisition date of Endoscopic Technologies, Inc. and was revalued at the end of each subsequent reporting period.

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

In accordance with ASC 820, the following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) | Total |
|---|---|--|--|------------------|
| Assets: | | | | |
| Money market funds | \$ | \$ 23,237 | \$ | \$ 23,237 |
| U.S. government agencies and securities | 1,016 | | | 1,016 |
| Corporate bonds | | 28,685 | | 28,685 |
| Total assets | \$ 1,016 | \$ 51,922 | \$ | \$ 52,938 |

There were no changes in the levels or methodology of measurement of financial assets and liabilities during the three or six month periods ended June 30, 2015.

In accordance with ASC 820, the following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) | Total |
|---|---|--|--|-----------|
| Assets: | | | | |
| Money market funds | \$ | \$ 23,692 | \$ | \$ 23,692 |
| Commercial paper | | 1,800 | | 1,800 |
| U.S. government agencies and securities | 3,022 | | | 3,022 |

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| | | | | | |
|--|----|-------|--------|--------|-----------|
| Corporate bonds | | | 35,337 | | 35,337 |
| Total assets | \$ | 3,022 | \$ | 60,829 | \$ 63,851 |
| Liabilities: | | | | | |
| Derivative instruments | \$ | | \$ | 120 | \$ 120 |
| Acquisition-related contingent consideration | | | | | |
| Total liabilities | \$ | | \$ | 120 | \$ 120 |

There were no changes in the levels or methodology of measurement of financial assets and liabilities during the twelve months ended December 31, 2014.

Derivative Instruments. Vested non-employee options historically issued by the Company were accounted for as derivative liabilities and remeasured at fair value through earnings at each reporting period until exercised or forfeited. All vested non-employee options have been exercised as of June 30, 2015.

Table of Contents**ATRICURE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts)****(Unaudited)**

In accordance with ASC 820, the following table represents the Company's Level 3 fair value measurements using significant other unobservable inputs for derivative instruments as of June 30, 2015:

| | |
|---|--------|
| Beginning Balance January 1, 2015 | \$ 120 |
| Total losses included in earnings | 57 |
| Exercises | (177) |
| Reclassification from equity to liability when fully vested | |
| Ending Balance June 30, 2015 | \$ |

In accordance with ASC 820, the following table represents the Company's Level 3 fair value measurements using significant other unobservable inputs for derivative instruments as of December 31, 2014:

| | |
|---|--------|
| Beginning Balance January 1, 2014 | \$ 350 |
| Total gains included in earnings | (183) |
| Exercises | (47) |
| Reclassification from equity to liability when fully vested | |
| Ending Balance December 31, 2014 | \$ 120 |

Acquisition-Related Contingent Consideration. The Company acquired Endoscopic Technologies, Inc. (Estech) on December 31, 2013. The aggregate consideration paid to Estech shareholders includes up to \$26,000 of contingent consideration to be paid based on the achievement of certain performance-based milestones in 2014 and 2015. The fair value of the contingent consideration was estimated using an expected present value approach to estimate an expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Using this valuation technique, the fair value of the contingent consideration was determined to be \$0 as of both June 30, 2015 and December 31, 2014.

The following table represents the Company's Level 3 fair value measurements using significant other unobservable inputs for acquisition-related contingent consideration as of December 31, 2014:

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| | | |
|--|-------------------|----------|
| Beginning Balance | January 1, 2014 | \$ 8,032 |
| Amounts acquired | | |
| Transfers in (out) of Level 3 | | |
| Changes in fair value included in earnings | | (8,032) |
| Ending Balance | December 31, 2014 | \$ |

4. INTANGIBLE ASSETS

The following table provides a summary of the Company's intangible assets with definite lives:

| | June 30, 2015 | | December 31, 2014 | |
|--------------------------|------------------|--------------------------|-------------------|--------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Non-compete agreement | \$ 100 | \$ 99 | \$ 100 | \$ 93 |
| Fusion technology | 9,242 | 1,386 | 9,242 | 924 |
| Clamp & probe technology | 829 | 414 | 829 | 276 |
| Estech trade name | 208 | 208 | 208 | 208 |
| Total | \$ 10,379 | \$ 2,107 | \$ 10,379 | \$ 1,501 |

Amortization expense related to intangible assets with definite lives was \$303 and \$356 for the three months ended June 30, 2015 and 2014, respectively, and \$606 and \$711 for the six months ended June 30, 2015 and 2014, respectively.

Table of Contents**ATRICURE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts)****(Unaudited)**

Future amortization expense related to intangible assets with definite lives is projected as follows:

| | | |
|---------------------|-----------------|--|
| 2015 | \$ 602 | July 1, 2015 through December 31, 2015 |
| 2016 | 1,201 | |
| 2017 | 924 | |
| 2018 | 924 | |
| 2019 | 924 | |
| 2020 and thereafter | 3,697 | |
| Total | \$ 8,272 | |

5. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

| | June 30, 2015 | December 31, 2014 |
|---|----------------------|--------------------------|
| Accrued commissions | \$ 4,025 | \$ 4,477 |
| Accrued bonus | 3,374 | 4,915 |
| Accrued payroll and employee-related expenses | 2,381 | 2,281 |
| Accrued taxes and value-added taxes payable | 735 | 1,272 |
| Other accrued liabilities | 535 | 399 |
| Accrued royalties | 377 | 442 |
| Sales returns allowance | 133 | 135 |
| Accrued non-employee stock options | | 120 |
| Total | \$ 11,560 | \$ 14,041 |

6. INDEBTEDNESS

The Company has a debt agreement with Silicon Valley Bank (SVB). The agreement, as amended, restated and modified, includes a \$15,000 revolving credit facility which matures on April 30, 2018. Borrowing availability under the revolving credit facility is based on the lesser of \$15,000 or a borrowing base calculation as defined by the agreement. As of June 30, 2015 the Company had no borrowings under the revolving credit facility and had

borrowing availability of approximately \$13,872.

Effective March 31, 2015, the Company and SVB entered into an Eighth Loan Modification Agreement (Loan Modification Agreement) which sets forth certain amendments to the Company's credit facility. The Loan Modification Agreement provides for (i) an increase in the limit of outstanding letters of credit from \$1,000 to \$2,000, (ii) an extension of the revolving line maturity date from April 30, 2016 to April 30, 2018 and (iii) modifications to certain covenants and other terms of the agreement.

As of December 31, 2014 the Company had an outstanding letter of credit of \$75 issued to its European subsidiary's corporate credit card program provider which was due to expire on June 30, 2015. The letter of credit was cancelled in June 2015.

As of June 30, 2015 the Company had capital leases for computer and office equipment that expire at various terms through 2020. The cost of the assets under lease was \$197. The assets are depreciated over their estimated useful lives, which equal the terms of the leases. Accumulated amortization on the capital leases was \$84 at June 30, 2015.

Future maturities on capital lease obligations are projected as follows:

| | | |
|--------------------------------------|---------------|--|
| 2015 | \$ 27 | July 1, 2015 through December 31, 2015 |
| 2016 | 52 | |
| 2017 | 32 | |
| 2018 | 18 | |
| 2019 | 8 | |
| 2020 | 2 | |
| Total payments | \$ 139 | |
| Imputed interest | (10) | |
| Net capital lease obligations | \$ 129 | |

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

7. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases various types of office, manufacturing and warehouse facilities and equipment under noncancelable operating leases that expire at various terms through 2021.

In August 2014 the Company and LM-VP AtriCure, LLC (Landlord), a third party unrelated to the Company, entered into a new building lease (Mason Lease) in order to re-locate its headquarters and West Chester, Ohio facilities from their current location to a building to be constructed on Innovation Way in Mason, Ohio and occupied exclusively by the Company.

The term of the Mason Lease is fifteen years with three separate five-year renewal options, at the Company's option, and begins upon substantial completion of the construction of the building (Commencement Date). We expect to take possession of the building in November 2015. The amount of initial annual base rent of \$1,353 is payable monthly beginning on the Commencement Date and is subject to a 2% increase each year during the Lease's initial term. Upon each renewal, the amount of rent payable will be agreed upon by the Company and Landlord or, if not so agreed upon, by an appraiser. The size of the building subject to the Lease is expected to be approximately 92 square feet.

Under the Mason Lease, the Company is responsible for paying real estate taxes, insurance, utilities, operating expenses and most building repairs and maintenance. The Company is also responsible for paying the first \$750 of construction-related tenant improvement costs, as well as amounts in excess of the estimated total cost of construction, as defined by the Mason Lease. On the Commencement Date, the Company is required to provide a letter of credit to the Landlord in the amount of \$1,250, which amount may decrease or be removed entirely based on the Company's financial performance. The Company is deemed the owner of the project during the construction period. As a result, approximately \$9,176 and \$3,941 of project costs incurred to date to construct the building are included in property and equipment and the financing obligation is included in other current liabilities in the Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, respectively. An increase in purchases of building under construction and proceeds from the construction financing obligation were also included in the Condensed Consolidated Statement of Cash Flows as of June 30, 2015.

Royalty Agreements

The Company has certain royalty agreements in place with terms that include payment of royalties based on product revenue from sales of specified current products. The royalty agreements have effective dates as early as 2003 and terms ranging from three years to at least twenty years. The royalties range from 0.75% to 5% of specified product sales. One of the agreements includes minimum quarterly payments of \$50 through 2015 and a maximum of \$2,000 in total royalties over the term of the agreement. Parties to the royalty agreements have the right at any time to terminate

the agreement immediately for cause. Royalty expense of \$471 and \$262 was recorded as part of cost of revenue for the three months ended June 30, 2015 and 2014, respectively, and \$898 and \$569 was recorded for the six months ended June 30, 2015 and 2014.

Purchase Agreements

The Company enters into standard purchase agreements with certain vendors in the ordinary course of business. Outstanding commitments at June 30, 2015 and 2014 were not significant.

Legal

The Company may, from time to time, become a party to legal proceedings.

8. INCOME TAX PROVISION

The Company files federal, state, and foreign income tax returns in jurisdictions with varying statutes of limitations. Income taxes are computed using the asset and liability method in accordance with FASB ASC 740, *Income Taxes*, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred taxes are measured using provisions of currently enacted tax laws. A valuation allowance against deferred tax assets is recorded when it is more-likely-than-not that such assets will not be fully realized. The Company has recorded a full valuation allowance against its net deferred tax assets as it is more-likely-than-not that the benefit of the deferred tax assets will not be recognized in future periods. Tax credits are accounted for as a reduction of income taxes in the year in which the credit originates. The Company does not expect any significant unrecognized tax benefits to arise over the next twelve months.

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

The Company's provision for income taxes for continuing operations in interim periods is computed by applying its estimated annual effective rate against its loss before income tax (expense) benefit for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur. The effective tax rate for the three months ended June 30, 2015 and 2014 was (0.17%) and (0.19%), respectively. The effective tax rate for the six months ended June 30, 2015 and 2014 was (0.14%) and (0.31%), respectively.

The Company has not had to accrue any interest and penalties related to unrecognized income tax benefits as a result of offsetting net operating losses. However, if the situation occurs, the Company will recognize interest and penalties within the income tax expense (benefit) line in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss and within the related tax liability line in the Condensed Consolidated Balance Sheets.

9. EQUITY COMPENSATION PLANS

The Company has several share-based incentive plans: the 2001 Stock Option Plan (2001 Plan), the 2005 Equity Incentive Plan (2005 Plan), the Amended and Restated 2014 Stock Incentive Plan (2014 Plan) and the 2008 Employee Stock Purchase Plan (ESPP).

2001 Plan, 2005 Plan and 2014 Plan

Neither the 2001 Plan nor 2005 Plan is currently used for granting incentives. The Company granted awards under the 2005 Plan until the 2014 Annual Meeting of Stockholders at which stockholders adopted the 2014 Plan. Pursuant to its terms, the 2014 Plan supersedes and replaces the 2005 Plan. Under the 2014 Plan, the Board of Directors may grant incentive stock options to employees and any parent or subsidiary's employees, and may grant nonstatutory stock options, restricted stock or stock appreciation rights to employees, directors and consultants of the Company and any parent or subsidiary's employees, directors and consultants. The administrator (currently the Compensation Committee of the Board of Directors) has the power to determine the terms of any awards, including the number of shares subject to each award, the exercisability of the awards and the form of consideration. As of June 30, 2015, 8,949 shares of common stock had been reserved for issuance under the 2014 Plan.

Options granted under the plans generally expire ten years from the date of grant. Options granted from the 2005 Plan and 2014 Plan generally vest at a rate of 25% on the first anniversary date of the grant and ratably each month thereafter over the following three years. Restricted stock awards granted under the 2005 Plan and 2014 Plan generally vest 25% annually over four years from date of grant.

Employee Stock Purchase Plan (ESPP)

During 2008 the Company established the Employee Stock Purchase Plan which is available to eligible employees as defined in the ESPP. Under the ESPP, shares of the Company's common stock may be purchased at a discount

(currently 15%) of the lesser of the closing price of the Company's common stock on the first trading day or the last trading day of the offering period. The offering period (currently six months) and the offering price are subject to change. Participants may not purchase more than \$25 of the Company's common stock in a calendar year and, effective January 1, 2014, may not purchase more than 3 shares during an offering period. Beginning on January 1, 2009 and on the first day of each fiscal year thereafter during the term of the ESPP, the number of shares available for sale under the ESPP shall be increased by the lesser of (i) two percent (2%) of the Company's outstanding shares of common stock as of the close of business on the last business day of the prior calendar year, not to exceed 600 shares, or (ii) a lesser amount determined by the Board of Directors. At June 30, 2015 there were 524 shares available for future issuance under the ESPP.

Table of Contents**ATRICURE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts)****(Unaudited)*****Valuation and Expense Information Under FASB ASC 718***

The following table summarizes share-based compensation expense related to employee share-based compensation under FASB ASC 718 for the three and six months ended June 30, 2015 and 2014. This expense was allocated as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of revenue | \$ 106 | \$ 93 | \$ 196 | \$ 164 |
| Research and development expenses | 347 | 267 | 636 | 399 |
| Selling, general and administrative expenses | 1,964 | 1,486 | 3,309 | 3,425 |
| Total share-based compensation expense related to employees | \$ 2,417 | \$ 1,846 | \$ 4,141 | \$ 3,988 |

10. SEGMENT AND GEOGRAPHIC INFORMATION

The Company evaluates reporting segments in accordance with FASB ASC 280, Segment Reporting. The Company develops, manufactures, and sells devices designed primarily for the surgical ablation of cardiac tissue and systems designed for the exclusion of the left atrial appendage. These devices are developed and marketed to a broad base of medical centers in the United States and internationally. Management considers all such sales to be part of a single reportable segment. Revenue attributed to geographic areas is based on the location of the customers to whom products are sold.

Revenue by geographic area was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| United States | \$ 25,744 | \$ 19,903 | \$ 48,667 | \$ 38,046 |
| Europe | 4,122 | 4,303 | 8,538 | 8,607 |
| Asia | 2,538 | 2,175 | 4,838 | 4,471 |
| Other international | 179 | 133 | 426 | 237 |

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| | | | | |
|---------------------|-----------|-----------|-----------|-----------|
| Total international | 6,839 | 6,611 | 13,802 | 13,315 |
| Total revenue | \$ 32,583 | \$ 26,514 | \$ 62,469 | \$ 51,361 |

Domestic revenue by product type was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Open-heart ablation | \$ 13,648 | \$ 10,856 | \$ 26,002 | \$ 21,233 |
| Minimally invasive ablation | 5,057 | 4,393 | 9,404 | 7,841 |
| AtriClip | 6,286 | 3,951 | 11,789 | 7,571 |
| Total ablation and AtriClip | 24,991 | 19,200 | 47,195 | 36,645 |
| Valve tools | 753 | 703 | 1,472 | 1,401 |
| Total domestic | \$ 25,744 | \$ 19,903 | \$ 48,667 | \$ 38,046 |

Table of Contents**ATRICURE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts)****(Unaudited)**

International revenue by product type was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Open-heart ablation | \$ 4,088 | \$ 4,054 | \$ 8,304 | \$ 8,025 |
| Minimally invasive ablation | 1,858 | 1,966 | 3,826 | 3,969 |
| AtriClip | 789 | 404 | 1,460 | 847 |
| Total ablation and AtriClip | 6,735 | 6,424 | 13,590 | 12,841 |
| Valve tools | 104 | 187 | 212 | 474 |
| Total international | \$ 6,839 | \$ 6,611 | \$ 13,802 | \$ 13,315 |

The majority of the Company's long-lived assets are located in the United States.

11. PUBLIC OFFERINGS OF COMMON STOCK

In February 2014 the Company completed a public offering of common stock under its January 2014 shelf registration. The Company sold 3,661 shares of common stock, par value \$0.001 per share, at a price of \$19.25 per share, generating proceeds of \$65,830 after expenses. Offering costs were recorded in additional paid in capital to offset proceeds.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

(Dollar amounts referenced in this Item 2 are in thousands, except per share amounts.)

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and notes thereto contained in Item 1 of Part I of this Form 10-Q and our audited financial statements and notes thereto as of and for the year ended December 31, 2014 included in our Form 10-K filed with the Securities and Exchange Commission (SEC) to provide an understanding of our results of operations, financial condition and cash flows.

Forward-Looking Statements

This Form 10-Q, including the sections titled Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors, contains forward-looking statements regarding our future performance. All forward-looking information is inherently uncertain and actual results may differ materially from assumptions, estimates or expectations reflected or contained in the forward-looking statements as a result of various factors, including those set forth under Risk Factors and elsewhere in this quarterly report on Form 10-Q, and in our annual report on Form 10-K for the year ended December 31, 2014. Forward-looking statements convey our current expectations or forecasts of future events. All statements contained in this Form 10-Q other than statements of historical fact are forward-looking statements. Forward-looking statements include statements regarding our future financial position, business strategy, budgets, projected costs, plans and objectives of management for future operations. The words may, continue, estimate, intend, plan, will, believe, project, expect, anticipate, and other similar expressions may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. With respect to the forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements speak only as of the date of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise unless required by law.

Overview

We are a leading atrial fibrillation (Afib) solutions partner providing innovative products, professional education and support for clinical science to reduce the economic and social burden of Afib. We have two ablation product lines. Our primary ablation product line, which accounts for a majority of our revenue, is the Isolator Synergy System, a bipolar radio frequency (RF) ablation generator, switch box and associated single use devices. We also offer a cryosurgery product line, including both reusable and single use cryoablation devices. Our AtriClip® Left Atrial Appendage Exclusion System (AtriClip system) is the most widely implanted left atrial appendage management (LAAM) device worldwide. We believe cardiothoracic surgeons are adopting our ablation and LAAM devices for the treatment of Afib and prevention of stroke.

Cardiothoracic surgeons have adopted our RF ablation and cryosurgery systems to treat an estimated 183,000 patients since 2004, and we believe that we are currently the market leader in the surgical treatment of Afib. Our products are utilized by cardiothoracic surgeons during both open-heart and minimally invasive surgical procedures and in both concomitant and sole-therapy cases. During a concomitant procedure, the surgeon ablates cardiac tissue and/or excludes the left atrial appendage, secondary, or concomitant, to a primary cardiac procedure such as a valve replacement or coronary bypass graft. Our Isolator Synergy System, which includes our Isolator Synergy clamps, RF generator and related switchbox, is the only medical device approved by the United States Food and Drug Administration (FDA) for the surgical treatment of Afib. The Isolator Synergy System is indicated for the treatment of persistent and long-standing persistent Afib concomitant to other open-heart surgical procedures such as coronary

artery bypass grafting and/or valve replacement or repair. To date, none of our other products have been approved or cleared by FDA specifically for the treatment of Afib. Our other ablation products are FDA cleared for ablation of cardiac tissue and/or treatment of cardiac arrhythmias. In addition, our cryoICE® probe is cleared for blocking pain by temporarily ablating peripheral nerves. The AtriClip System is cleared for occlusion of the left atrial appendage, under direct visualization, concomitant to other open cardiac procedures. We also have a line of reusable surgical instruments typically used for cardiac valve replacement or repair. We anticipate that substantially all of our revenue for the foreseeable future will relate to products we currently sell, or are in the process of developing, which surgeons generally use to ablate cardiac tissue, to exclude the left atrial appendage, to perform mitral and aortic valve replacement and repair, and/or to ablate peripheral nerves during cardiothoracic surgery.

We sell our products to medical centers in the United States (U.S.) through our direct sales force. AtriCure Europe, B.V., our wholly-owned subsidiary incorporated and based in the Netherlands, markets and sells our products throughout Europe and the Middle East primarily through distributors, while in certain markets, such as Germany, France, the United Kingdom and the Benelux region, we sell directly to medical centers. We also sell our products to other international distributors, primarily in Asia, South America and Canada. Our business is primarily transacted in U.S. dollars with the exception of transactions with our European subsidiary which are substantially transacted in Euros or British Pounds.

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Recent Developments

The December 2011 FDA approval of our Isolator Synergy System included the requirement to implement a 350-patient post-approval study (PAS). The PAS was designed to evaluate the long-term safety and efficacy of our Isolator Synergy System in the treatment of persistent and long-standing persistent Afib in patients undergoing open-heart procedures. Enrollment in the trial was completed in October 2014 with 365 patients at 40 medical centers. We expect to release preliminary data from the study in early 2016, with a complete report expected to be published in 2017.

We conducted the Dual Epicardial Endocardial Persistent Atrial Fibrillation (Staged DEEP AF) Feasibility clinical trial to evaluate use of the Isolator Synergy System for the treatment of Afib in a two-part procedure where a minimally invasive surgical ablation procedure is performed first, and an intracardiac catheter mapping and ablation procedure is then performed on a different day during the same hospitalization. Enrollment in the Staged DEEP AF trial was completed during the fourth quarter of 2013, with 30 patients enrolled at six medical centers.

We submitted an Investigational Device Exemption (IDE) application for the Staged DEEP AF pivotal trial to FDA in May 2014. The Staged DEEP AF pivotal trial evaluates the safety and efficacy of the Isolator Synergy System when used in a staged approach, where a minimally invasive surgical ablation procedure is first performed and the patient undergoes the intracardiac catheter procedure approximately 90-120 days later. FDA approval to enroll up to 220 subjects at 23 domestic medical centers and two international medical centers was received during the third quarter of 2014. Enrollment began during the first quarter of 2015, and there are currently ten patients enrolled and ten sites initiated.

We also conducted a Stroke Feasibility clinical trial with the AtriClip System. The trial evaluates the initial procedural safety and efficacy of the AtriClip System for stroke prophylaxis (prevention of stroke) in patients with non-valvular Afib in whom long term oral anticoagulation therapy is medically contraindicated. We had approval to enroll up to 30 patients at seven medical centers during the course of the trial. Enrollment began in the first quarter of 2014 and involved at twelve patients. A Pre-Submission Meeting was held with the FDA during the first quarter of 2015 to discuss the early termination of enrollment in the Stroke Feasibility clinical trial and proceeding to the pivotal trial. The FDA has approved the termination of the feasibility study at twelve enrolled subjects. The pivotal trial design is under discussion with the FDA.

We are in the beginning stages of our ATLAS study, which is a non-IDE study with the hypothesis that prophylactic exclusion of the left atrial appendage with the AtriClip will decrease composite events of stroke/transient ischemic attacks, major bleeding requiring reoperation and myocardial infarction postoperatively when compared to a second group of patients treated with medical management for postoperative Afib. We have finalized the study protocol and expect to begin enrollment near the end of 2015, pending applicable approvals. At full capacity, we expect to enroll approximately 1,200 patients at up to ten sites.

We are also pursuing a non-IDE trial in Europe, CEASE AF, to compare staged hybrid ablation treatment (minimally invasive surgical ablation procedure is first performed and the patient undergoes the intracardiac catheter procedure approximately 91-180 days later) versus catheter ablation. We have finalized the study protocol and anticipate enrollment of the first patient in the fourth quarter of 2015, pending applicable approvals. We expect the study to have an enrollment of approximately 210 patients across ten centers.

In June 2015 we received confirmation from the Office of Inspector General that we satisfactorily completed all of our obligations under the five-year Corporate Integrity Agreement entered into in 2010 as a result of a settlement agreement with the Department of Justice.

Table of Contents**Results of Operations****Three months ended June 30, 2015 compared to three months ended June 30, 2014**

The following table sets forth, for the periods indicated, our results of operations expressed as dollar amounts and as percentages of total revenue:

| | Three Months Ended June 30, 2015 | | 2014 | |
|--|-------------------------------------|------------------|------------|------------------|
| | Amount | % of Revenues | Amount | % of Revenues |
| Revenue | \$ 32,583 | 100.0% | \$ 26,514 | 100.0% |
| Cost of revenue | 9,466 | 29.1% | 7,733 | 29.2% |
| Gross profit | 23,117 | 70.9% | 18,781 | 70.8% |
| Operating expenses: | | | | |
| Research and development expenses | 5,862 | 18.0% | 4,569 | 17.2% |
| Selling, general and administrative expenses | 22,074 | 67.7% | 17,065 | 64.4% |
| Total operating expenses | 27,936 | 85.7% | 21,634 | 81.6% |
| Loss from operations | (4,819) | (14.8%) | (2,853) | (10.8%) |
| Other income (expense): | | | | |
| Interest expense | (17) | (0.1%) | (29) | (0.1%) |
| Interest income | 43 | 0.1% | 23 | 0.1% |
| Other | (90) | (0.3%) | 172 | 0.6% |
| Total other (expense) income | (64) | (0.3%) | 166 | 0.6% |
| Loss before income tax expense | (4,883) | (15.1%) | (2,687) | (10.2%) |
| Income tax expense | 8 | 0.0% | 5 | 0.0% |
| Net loss | \$ (4,891) | (15.1%) | \$ (2,692) | (10.2%) |

Revenue. Total revenue increased 22.9% (26.5% on a constant currency basis) from \$26,514 for the three months ended June 30, 2014 to \$32,583 for the three months ended June 30, 2015. Constant currency basis amounts are calculated by applying previous period foreign currency exchange rates to each of the comparable periods. Revenue from sales to customers in the United States increased \$5,841, or 29.3%, and revenue from sales to international customers increased \$228, or 3.5% (17.9% on a constant currency basis). The increase in sales to customers in the United States was primarily due to increased sales of ablation-related open-heart products of \$2,792 and increased sales of the AtriClip system of \$2,335. The increase in international revenue was primarily due to increased sales across product type in Asia, the United Kingdom, Germany and France which offset the decline in the Euro-Dollar exchange rate between quarters.

Cost of revenue and gross margin. Cost of revenue increased \$1,733, from \$7,733 for the three months ended June 30, 2014 to \$9,466 for the three months ended June 30, 2015. As a percentage of revenue, cost of revenue

decreased from 29.2% for the three months ended June 30, 2014 to 29.1% for the three months ended June 30, 2015. Gross margin for the three months ended June 30, 2015 and 2014 was 70.9% and 70.8%, respectively. The increase in gross margin was primarily due to the heavier U.S. sales mix and the elimination of certain Estech transition costs included in the three months ended June 30, 2014, partially offset by heavier loaner generator depreciation and a slight increase in scrap and obsolescence related primarily to non-core or Estech products.

Research and development expenses. Research and development expenses increased \$1,293, or 28.3%, from \$4,569 for the three months ended June 30, 2014 to \$5,862 for the three months ended June 30, 2015. The increase in expense was primarily due to a \$718 increase in product development, regulatory and clinical personnel expense, a \$532 increase in product development project expense and a \$79 increase in share-based compensation, partially offset by slight decreases in clinical trial spending and regulatory filing expense.

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$5,009, or 29.4%, from \$17,065 for the three months ended June 30, 2014 to \$22,074 for the three months ended June 30, 2015. The increase was primarily due to the \$2,662 favorable impact of the fair value adjustment of Estech contingent consideration recorded during the three months ended June 30, 2014, a \$1,484 increase in personnel expense, a \$360 increase in training and related expenses and a \$478 increase in share-based compensation expense. The increase is partially offset by \$593 of transaction, transition and severance expense related to the acquisition of Estech recorded during the three months ended June 30, 2014.

Net interest income (expense). Net interest income (expense) for the three months ended June 30, 2015 and 2014 was \$26 and (\$6), respectively.

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Other income and expense. Other income and expense consists primarily of foreign currency transaction gains and losses, grant income and non-employee option gains and losses related to the fair market value change for fully vested options outstanding for consultants, which are accounted for as free-standing derivatives. Net other (expense) income for the three months ended June 30, 2015 and 2014 totaled (\$90) and \$172, respectively.

Six months ended June 30, 2015 compared to six months ended June 30, 2014

The following table sets forth, for the periods indicated, our results of operations expressed as dollar amounts and as percentages of total revenue:

| | Six Months Ended June 30, | | 2014 | |
|--|---------------------------|----------|-------------|----------|
| | 2015 | % of | 2014 | % of |
| | Amount | Revenues | Amount | Revenues |
| Revenue | \$ 62,469 | 100.0% | \$ 51,361 | 100.0% |
| Cost of revenue | 17,617 | 28.2% | 14,923 | 29.1% |
| Gross profit | 44,852 | 71.8% | 36,438 | 70.9% |
| Operating expenses: | | | | |
| Research and development expenses | 11,471 | 18.4% | 8,570 | 16.7% |
| Selling, general and administrative expenses | 43,344 | 69.4% | 38,646 | 75.2% |
| Total operating expenses | 54,815 | 87.7% | 47,216 | 91.9% |
| Loss from operations | (9,963) | (15.9%) | (10,778) | (21.0%) |
| Other income (expense): | | | | |
| Interest expense | (35) | (0.1%) | (266) | (0.5%) |
| Interest income | 86 | 0.1% | 37 | 0.1% |
| Other | (231) | (0.4%) | 638 | 1.2% |
| Total other (expense) income | (180) | (0.4%) | 409 | 0.8% |
| Loss before income tax expense | (10,143) | (16.3%) | (10,369) | (20.2%) |
| Income tax expense | 14 | 0.0% | 32 | 0.1% |
| Net loss | \$ (10,157) | (16.3%) | \$ (10,401) | (20.3%) |

Revenue. Total revenue increased 21.6% (25.3% on a constant currency basis) from \$51,361 for the six months ended June 30, 2014 to \$62,469 for the six months ended June 30, 2015. Constant currency basis amounts are calculated by applying previous period foreign currency exchange rates to each of the comparable periods. Revenue from sales to customers in the United States increased \$10,621, or 27.9%, and revenue from sales to international customers increased \$487, or 3.7% (17.7% on a constant currency basis). The increase in sales to customers in the United States was primarily due to increased sales of ablation-related open-heart products of \$4,769 and increased sales of the AtriClip system of \$4,218. The increase in international revenue was primarily due to increased sales across product type in Asia, the United Kingdom, Germany and France which offset the decline in the Euro-Dollar exchange rate between periods.

Cost of revenue and gross margin. Cost of revenue increased \$2,694, from \$14,923 for the six months ended June 30, 2014 to \$17,617 for the six months ended June 30, 2015. As a percentage of revenue, cost of revenue decreased from 29.1% for the six months ended June 30, 2014 to 28.2% for the six months ended June 30, 2015. Gross margin for the six months ended June 30, 2015 and 2014 was 71.8% and 70.9%, respectively. The increase in gross margin was primarily due to the heavier U.S. sales mix, favorable product costs and the elimination of certain Estech transition costs included in the six months ended June 30, 2014, partially offset by heavier loaner depreciation and a slight increase in scrap and obsolescence related primarily to non-core or Estech products.

Research and development expenses. Research and development expenses increased \$2,901, or 33.9%, from \$8,570 for the six months ended June 30, 2014 to \$11,471 for the six months ended June 30, 2015. The increase in expense was primarily due to a \$1,375 increase in product development, regulatory and clinical personnel expense, a \$846 increase in product development project expense, a \$110 increase in clinical trial spending and a \$236 increase in share-based compensation expense.

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$4,698, or 12.2%, from \$38,646 for the six months ended June 30, 2014 to \$43,344 for the six months ended June 30, 2015. The increase was primarily due to the favorable impact of the \$2,662 fair value adjustment of Estech contingent consideration recorded during the six months ended June 30, 2014, a \$1,057 increase personnel expense and a \$972 increase in training and related expenses. The increase is partially offset by \$2,765 of transaction, transition and severance expense related to the acquisition of Estech recorded during the six months ended June 30, 2014.

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Net interest income (expense). Net interest income (expense) for the six months ended June 30, 2015 and 2014 was \$51 and (\$229), respectively. Net interest expense in 2014 primarily represents interest on the Silicon Valley Bank (SVB) term loan paid during the six months ended June 30, 2014, prior to the repayment of this debt in March 2014.

Other income and expense. Other income and expense consists primarily of foreign currency transaction gains and losses, grant income and non-employee option gains and losses related to the fair market value change for fully vested options outstanding for consultants, which are accounted for as free-standing derivatives. Net other (expense) income for the six months ended June 30, 2015 and 2014 totaled (\$231) and \$638, respectively.

Liquidity and Capital Resources

As of June 30, 2015 the Company had cash, cash equivalents and investments of \$59,688 and no outstanding debt, resulting in a net cash position of \$59,688. We had unused borrowing capacity of approximately \$13,872 under our revolving credit facility. Most of our cash is held by financial institutions in the United States of America. We had net working capital of \$60,598 and an accumulated deficit of \$148,581 as of June 30, 2015.

Cash flows used in operating activities. Net cash used in operating activities for the six months ended June 30, 2015 was \$6,394. The primary net uses of cash for operating activities were as follows:

the net loss of \$10,157, offset by \$7,686 of non-cash expenses, including \$4,141 in share-based compensation and \$2,693 in depreciation and amortization; and

a net increase in cash used related to changes in operating assets and liabilities of \$3,923, due primarily to the following:

an increase in accounts receivable of \$468, due primarily to an increase in sales during 2015 as compared to 2014 offset by collections during the six months ended June 30, 2015;

an increase in inventory of \$1,977, due primarily to increased inventory levels in support of anticipated revenue growth; and

a \$1,068 decrease in accounts payable and accrued liabilities due primarily to the timing of payments, including variable compensation payments.

Cash flows provided by investing activities. Net cash provided by investing activities was \$1,275 for the six months ended June 30, 2015. The primary source of cash from investing activities was \$20,460 related to sales and maturities of available-for-sale securities. This source of cash was partially offset by \$10,302 for purchases of available-for-sale securities, \$4,077 related to the purchase of property and equipment, which included the placement of our RF and cryo generators with our customers and \$4,806 for increases in property under a build-to-suit obligation.

Cash flows provided by financing activities. Net cash provided by financing activities during the six months ended June 30, 2015 was \$6,907, which was primarily due to increases in a build-to-suit obligation of \$4,806, proceeds from stock option exercises of \$1,854 and proceeds from the issuance of common stock under our employee stock purchase

plan of \$906, partially offset by shares repurchased for payment of taxes on stock awards of \$572, capital lease payments and debt fees.

Credit facility. The Company's Loan and Security Agreement with SVB, as amended, restated, and modified (Agreement) provides for a revolving credit facility under which we may borrow a maximum of \$15,000. Borrowing availability under the revolving credit facility is based on the lesser of \$15,000 or a borrowing base calculation as defined by the Agreement. As of June 30, 2015 we had no borrowings under the revolving credit facility, and we had borrowing availability of approximately \$13,872. The applicable borrowing rate on the revolving facility is the prime rate during a period when we meet the requirements for Streamline Period, which are based on available cash and amounts drawn under the credit facility, and prime plus 1.25% at all other times. The revolving credit facility expires on April 30, 2018.

The Agreement contains covenants that include, among others, covenants that limit our ability to dispose of assets, enter into mergers or acquisitions, incur indebtedness, incur liens, pay dividends or make distributions on our capital stock, make investments or loans, and enter into certain affiliate transactions, in each case subject to customary exceptions for a credit facility of this size and type. Additional covenants apply when we have outstanding borrowings under the revolving credit facility or when we hold less than \$20,000 in cash and investments with SVB. Financial covenants under the credit facility include a minimum EBITDA and a minimum liquidity ratio. Further, a minimum fixed charge ratio applies when specific covenant milestones are achieved. None of the covenants must be applied as of June 30, 2015. The occurrence of an event of default could result in an increase to the applicable interest rate by 3.0%, an acceleration of all obligations under the Agreement, an obligation to repay all obligations in full and a right by SVB to exercise all remedies available to it under the Agreement and related agreements including the Guaranty and Security Agreement. Specified assets have been pledged as collateral.

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We had an outstanding letter of credit of \$75 issued to our European subsidiary's corporate credit card provider which was due to expire on June 30, 2015. The letter of credit was cancelled in June 2015.

Uses of liquidity and capital resources. Our future capital requirements depend on a number of factors, including the rate of market acceptance of our current and future products, the resources we devote to developing and supporting our products, future expenses to expand and support our sales and marketing efforts, costs relating to changes in regulatory policies or laws that affect our operations and costs of filing, costs associated with clinical trials and securing regulatory approval for new products, costs associated with integrating acquired businesses, costs associated with prosecuting, defending and enforcing our intellectual property rights and possible acquisitions and joint ventures. Global economic turmoil may adversely impact our revenue, access to the capital markets or future demand for our products.

In January 2014 we filed a shelf registration statement with the SEC which allows us to sell any combination of senior or subordinated debt securities, common stock, preferred stock, warrants, depositary shares and units in one or more offerings should we choose to do so in the future. In February 2014 we sold 3,660,525 shares of common stock under the shelf registration which resulted in net proceeds of approximately \$65,830.

We believe that our current cash, cash equivalents and investments, along with the cash we expect to generate or use for operations or access via our revolving credit facility, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next twelve months. If our sources of cash are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or obtain a revised or additional credit facility. The sale of additional equity or convertible debt securities could result in dilution to our stockholders. If additional funds are raised through the issuance of debt securities, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Additional financing may not be available at all, or in amounts or terms acceptable to us. Finally, our credit facility requires compliance with certain financial and other covenants. If we are unable to obtain this additional financing, we may be required to reduce the scope of our planned research and development, clinical activities and selling and marketing efforts.

Off-Balance-Sheet Arrangements

As of June 30, 2015 we had operating lease agreements not recorded on the Condensed Consolidated Balance Sheets. Operating leases are utilized in the normal course of business.

Seasonality

During the third quarter, we typically experience a moderate decline in revenue that we attribute primarily to the elective nature of certain procedures in which our products are used. We believe this is due to fewer people choosing to undergo elective procedures during the summer months.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and disclosures of contingent assets and liabilities at the date of the financial statements. On a periodic basis, we evaluate our estimates, including those related to sales returns and allowances, accounts receivable, inventories and share-based compensation. We use authoritative

pronouncements, historical experience and other assumptions as the basis for making estimates. Actual results could differ from those estimates under different assumptions or conditions. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 includes additional information about the Company, our operations, our financial position and our critical accounting policies and estimates and should be read in conjunction with this Quarterly Report.

Recent Accounting Pronouncements

See Note 2 in the Notes to the Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2015 there were no material changes to the information provided under Item 7A, Quantitative and Qualitative Disclosures About Market Risk in the Company's Form 10-K for the year ended December 31, 2014.

Table of Contents**Item 4. Controls and Procedures**
Disclosure Controls and Procedures

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934 (Exchange Act), as of the end of the period covered by this report. Our management, including the President and Chief Executive Officer (the Principal Executive Officer) and Senior Vice President and Chief Financial Officer (the Principal Accounting and Financial Officer), supervised and participated in the evaluation. Based on the evaluation, we concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's forms and rules, and the material information relating to the Company is accumulated and communicated to management, including the President and Chief Executive Officer (the Principal Executive Officer) and Senior Vice President and Chief Financial Officer (the Principal Accounting and Financial Officer), as appropriate, to allow timely decisions regarding required disclosures.

Control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that control objectives are met. Because of inherent limitations in all control systems, no evaluation of controls can provide assurance that all control issues and instances of fraud, if any, within a company will be detected. Additionally, controls can be circumvented by individuals, by collusion of two or more people, or by management override. Over time, controls can become inadequate because of changes in conditions or the degree of compliance may deteriorate. Further, the design of any system of controls is based in part upon assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all future conditions. Because of the inherent limitations in any cost-effective control system, misstatements due to errors or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

In the ordinary course of business we routinely enhance our information systems by either upgrading current systems or implementing new ones. There were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

Information with respect to legal proceedings can be found under the heading "Legal" in Note 7 "Commitments and Contingencies to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Item 1A, "Risk Factors" in our Form 10-K for the year ended December 31, 2014, all of which could materially affect our business, financial condition or future results. The risks described are not the only risks facing us.

Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may adversely affect our business, financial condition and/or operating results. There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Table of Contents**Item 6. Exhibits**

| Exhibit | |
|----------------|---|
| No. | Description |
| 31.1 | Rule 13a-14(a) Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Rule 13a-14(a) Certification of Principal Accounting and Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350 by the Principal Executive Officer, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350 by the Principal Accounting and Financial Officer, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

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

AtriCure, Inc.
(REGISTRANT)

Date: July 31, 2015

/s/ Michael H. Carrel
Michael H. Carrel
President and Chief Executive Officer

(Principal Executive Officer)

Date: July 31, 2015

/s/ M. Andrew Wade
M. Andrew Wade
Senior Vice President and Chief Financial Officer

(Principal Accounting and Financial Officer)

Table of Contents**EXHIBIT INDEX**

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