

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

---

**FORM 10-Q**

---

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

For the quarterly period ended March 31, 2014

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	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES  NO

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

<u>Class</u>	<u>Outstanding at April 23, 2014</u>
Common Stock, \$.001 par value	27,405,555



**Table of Contents**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <a href="#">Financial Statements</a>	
<a href="#">Condensed Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013</a>	3
<a href="#">Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three Months Ended March 31, 2014 and 2013</a>	4
<a href="#">Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013</a>	5
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	6
Item 2. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	21
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	25
Item 4. <a href="#">Controls and Procedures</a>	25
Item 5. <a href="#">Other Information</a>	25
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <a href="#">Legal Proceedings</a>	26
Item 1A. <a href="#">Risk Factors</a>	26
Item 6. <a href="#">Exhibits</a>	27
<a href="#">Signatures</a>	28
<a href="#">Exhibit Index</a>	29

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**ATRICURE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(In Thousands, Except Per Share Amounts)**  
**(Unaudited)**

	March 31, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 68,639	\$ 14,892
Short-term investments	10,716	11,319
Accounts receivable, less allowance for doubtful accounts of \$109 and \$94, respectively	14,713	13,652
Inventories	11,082	10,214
Other current assets	2,098	2,410
Total current assets	107,248	52,487
Property and equipment, net	5,769	5,643
Long-term investments	—	7,914
Intangible assets, net	9,944	10,299
Goodwill	35,386	35,386
Other noncurrent assets	207	218
Total Assets	<u>\$ 158,554</u>	<u>\$ 111,947</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 7,921	\$ 8,605
Accrued liabilities	8,054	16,070
Current maturities of debt and capital leases	38	2,038
Total current liabilities	16,013	26,713
Long-term debt and capital leases	69	4,412
Other noncurrent liabilities	8,209	8,218
Total Liabilities	24,291	39,343
Commitments and contingencies (Note 7)		
Stockholders' Equity:		
Common stock, \$.001 par value, 90,000 shares authorized and 27,401 and 23,248 issued and outstanding, respectively	27	23
Additional paid-in capital	264,297	194,933
Accumulated other comprehensive income (loss)	(139)	(139)
Accumulated deficit	(129,922)	(122,213)
Total Stockholders' Equity	134,263	72,604
Total Liabilities and Stockholders' Equity	<u>\$ 158,554</u>	<u>\$ 111,947</u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenue	\$ 24,847	\$ 19,430
Cost of revenue	7,190	5,344
Gross profit	17,657	14,086
Operating expenses:		
Research and development expenses	4,001	3,506
Selling, general and administrative expenses	21,581	12,380
Total operating expenses	25,582	15,886
Loss from operations	(7,925)	(1,800)
Other income (expense):		
Interest expense	(237)	(173)
Interest income	14	4
Other	466	31
Loss before income tax expense	(7,682)	(1,938)
Income tax expense	27	5
Net loss	<u>\$ (7,709)</u>	<u>\$ (1,943)</u>
Basic and diluted net loss per share	\$ (0.31)	\$ (0.10)
Weighted average shares outstanding—basic and diluted	24,766	19,544
Comprehensive loss:		
Unrealized losses on investments	\$ (2)	\$ —
Foreign currency translation adjustment	2	(144)
Other comprehensive income (loss)	—	(144)
Net loss	(7,709)	(1,943)
Comprehensive loss	<u>\$ (7,709)</u>	<u>\$ (2,087)</u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (7,709)	\$ (1,943)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Share-based compensation expense	2,142	518
Depreciation	730	458
Loss on disposal of equipment	14	15
Amortization of deferred financing costs	59	21
Amortization of intangible assets	355	3
Amortization/accretion on investments	83	(3)
Change in allowance for doubtful accounts	(17)	8
Other	95	—
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(1,045)	(1,231)
Inventories	(862)	(1)
Other current assets	312	(634)
Accounts payable	(531)	278
Accrued liabilities	(7,969)	(190)
Other noncurrent assets and liabilities	(55)	127
Net cash used in operating activities	<u>(14,398)</u>	<u>(2,574)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1,020)	(455)
Purchases of available-for-sale securities	—	(2,549)
Maturities of available-for-sale securities	2,550	1,555
Sales of available-for-sale securities	5,884	—
Net cash provided by (used in) investing activities	<u>7,414</u>	<u>(1,449)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from sale of stock, net of offering costs of \$215 and \$172, respectively	65,872	26,912
Payments on debt and capital leases	(6,343)	(507)
Payment of debt fees and premium on retirement of debt	(100)	(25)
Proceeds from stock option exercises	1,395	1,002
Shares repurchased for payment of taxes on stock awards	(88)	(245)
Net cash provided by financing activities	<u>60,736</u>	<u>27,137</u>
Effect of exchange rate changes on cash and cash equivalents	(5)	(83)
Net increase in cash and cash equivalents	53,747	23,031
Cash and cash equivalents—beginning of period	14,892	7,753
Cash and cash equivalents—end of period	<u>\$ 68,639</u>	<u>\$ 30,784</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 102	\$ 140
Cash paid for taxes	146	30
<b>Non-cash investing activities:</b>		
Accrued purchases of property and equipment	124	72

See accompanying notes to condensed consolidated financial statements.

**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. (the “Company” or “AtriCure”) was incorporated in the State of Delaware on October 31, 2000. The Company is 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. The Company sells its products to hospitals 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 generally accepted accounting principles generally accepted in the United States (“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, 2013 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 (“Estech”), 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 determines the timing of revenue recognition based upon factors such as passage of title, payment terms and ability to return products. 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 customers’ 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 \$227 and \$192 for the three months ended March 31, 2014 and 2013, 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 price 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.

**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 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 reserve 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 reserve has not been significant.

Inventories consist of the following:

	March 31, 2014	December 31, 2013
Raw materials	\$ 3,601	\$ 3,279
Work in process	1,419	1,472
Finished goods	6,062	5,463
Inventories	<u>\$ 11,082</u>	<u>\$ 10,214</u>

**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: machinery and equipment 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 use. Maintenance and repair costs are expensed as incurred.

Included in property and equipment are generators and other capital equipment (such as the Company’s switchbox units and cryosurgical consoles) that are loaned at no cost to direct customers that use the Company’s disposable products. These generators are depreciated over a period of one to three years, which approximates their useful lives, and such depreciation is included in cost of revenue. The estimated useful lives of this equipment are based on anticipated usage by our 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 introductions of new technologies, the estimated useful lives of this equipment may change in a future period. Depreciation related to these generators was \$461 and \$270 for the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014 and December 31, 2013, the net carrying amount of loaned equipment included in net property and equipment in the Condensed Consolidated Balance Sheets was \$3,215 and \$3,173, respectively.

**Impairment of Long-Lived Assets**—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. ASC 350, “Intangibles—Goodwill and Other” (“ASC 350”) requires a two-step approach to determine any potential goodwill impairment. The first step (Step 1) requires a comparison of the carrying value of the reporting unit to its fair value. Goodwill is considered potentially impaired if the carrying value of the reporting unit is greater than the estimated fair value. If potential impairment exists based upon completion of Step 1, Step 2 must be completed, which compares the implied fair value of a reporting unit’s goodwill to its carrying value. Step 2 involves an analysis allocating the fair value determined in Step 1 (as if it was the purchase price in a business combination). If the calculated fair value of the goodwill resulting from this allocation is lower than the carrying value of the goodwill of the reporting unit, an impairment loss is recorded. As a result, the value of the assets could be significantly reduced, which would increase operating expenses and reduce net income for the period in which the charge occurs.



**ATRICURE, INC. AND SUBSIDIARIES**  
**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 foreign currency transaction gains of \$5 and \$45 for the three months ended March 31, 2014 and 2013, respectively, 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 \$363 and \$0 during the three months ended March 31, 2014 and 2013, 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 March 31, 2014 and 2013, (\$98) and \$14, respectively, of (income) expense 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, (the "Affordable Care Act") requires manufacturers of medical devices to pay an excise tax on all U.S. medical device sales beginning in January 2013. The Company's expense related to the medical device excise tax, which was recorded in cost of revenue, was \$114 and \$120 for the three months ended March 31, 2014 and 2013, 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 3,762 and 2,766 options and restricted stock shares as of March 31, 2014 and 2013, 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 Income (Loss)**—In addition to net losses, the comprehensive loss includes foreign currency translation adjustments and unrealized gains and losses on investments.

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

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

	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Total accumulated other comprehensive (loss) income at beginning of period	\$ (139)	\$ 77
<u>Unrealized Gains on Investments</u>		
Balance at beginning of period	\$ (6)	\$ 1
Other comprehensive income before reclassifications	(2)	0
Amounts reclassified from accumulated other comprehensive income to other income on the statement of operations	0	0
Balance at end of period	<u>\$ (8)</u>	<u>\$ 1</u>
<u>Foreign Currency Translation Adjustment</u>		
Balance at beginning of period	\$ (133)	\$ 76
Other comprehensive income before reclassifications	(3)	(189)
Amounts reclassified from accumulated other comprehensive income to other income on the statement of operations	5	45
Balance at end of period	<u>\$ (131)</u>	<u>\$ (68)</u>
Total accumulated other comprehensive loss at end of period	<u>\$ (139)</u>	<u>\$ (67)</u>

**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 products or concepts, preclinical studies, clinical trials and the cost of products used in trials and tests.

**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 March 31, 2014 and 2013 was \$2,142 and \$518, 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 highly complex and 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 our Condensed Consolidated Statements of Operations and Comprehensive Loss. The expense has been reduced for estimated forfeitures.

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. Estimated forfeitures reduce the amount of expense recorded for restricted stock.

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.

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

The Company has historically issued stock options to non-employee consultants as a form of compensation for services provided to the Company. The Company accounted for the options granted to non-employees prior to their vesting date in accordance with ASC 505-50, "Equity-Based Payments to Non-Employees" ("ASC 505-50"). Once these non-employee consultant stock options have vested, the awards no longer fall within the scope of ASC 505-50. Because the stock options require settlement by the Company's delivery of registered shares and because the tax withholding provisions in the awards allow the stock options to be partially net-cash settled, these vested stock options are no longer eligible for equity classification and are, thus, accounted for as derivative liabilities under FASB ASC 815 until the stock options are ultimately either exercised or forfeited. Accordingly, the vested non-employee consultant stock options are classified as liabilities and remeasured at fair value through earnings at each reporting period. Fully vested options to acquire 33 and 38 shares of common stock held by non-employee consultants remained unexercised as of March 31, 2014 and December 31, 2013, respectively. A liability of \$205 and \$350 was included in accrued liabilities in the Condensed Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013, respectively.

**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 book value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, short-term investments, short and long-term other assets, accounts payable, accrued expenses and other liabilities, approximate their fair values. The Company classifies cash and short-term 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 expenses 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. Other assets and other liabilities are classified as Level 1 within the fair value hierarchy. Cash equivalents and short-term 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. Significant unobservable inputs with respect to the fair value measurement of the Level 3 acquisition-related contingent consideration are developed using Company data. When an input is changed, the expected present value calculation is updated and the results are analyzed for reasonableness.

## **2. RECENT ACCOUNTING PRONOUNCEMENTS**

In July 2013 the FASB issued FASB ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This new guidance eliminates the diversity in practice for the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from disallowance of a tax position. This ASU is effective for interim and annual reporting periods beginning after December 15, 2013. The Company has evaluated the provisions of ASU 2013-11 and has determined that they do not have a material impact on the Company's financial reporting.

In September 2013 the United States Treasury Department and the IRS issued final and proposed regulations (the "Tangible Property Regulations") effective for tax years beginning on or after January 1, 2014, that provided guidance on a number of matters with regard to tangible property, including whether expenditures qualified as deductible repairs, the treatment of materials and supplies, capitalization of tangible property, dispositions of property and related elections. The Company has evaluated the regulations and has determined that they do 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:

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

- 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 investments 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 Estech and is revalued at the end of each reporting period.

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 March 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
<b>Assets:</b>				
Money market funds	\$ —	\$ 65,858	\$ —	\$65,858
Commercial paper	—	1,000	—	1,000
U.S. government agencies and securities	4,136	—	—	4,136
Corporate bonds	—	5,580	—	5,580
Total assets	<u>\$ 4,136</u>	<u>\$ 72,438</u>	<u>\$ —</u>	<u>\$76,574</u>
<b>Liabilities:</b>				
Derivative instruments	\$ —	\$ —	\$ 205	\$ 205
Acquisition-related contingent consideration	—	—	8,032	8,032
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,237</u>	<u>\$ 8,237</u>

There were no changes in the levels of financial assets and liabilities during the three-month period ended March 31, 2014.

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, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Money market funds	\$ —	\$ 4,295	\$ —	\$ 4,295
Commercial paper	—	2,598	—	2,598
U.S. government agencies and securities	4,145	—	—	4,145
Corporate bonds	—	12,490	—	12,490
Total assets	<u>\$ 4,145</u>	<u>\$ 19,383</u>	<u>\$ —</u>	<u>\$23,528</u>
<b>Liabilities:</b>				
Derivative instruments	\$ —	\$ —	\$ 350	\$ 350
Acquisition-related contingent consideration	—	—	8,032	8,032
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,382</u>	<u>\$ 8,382</u>

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

There were no changes in the levels of financial assets and liabilities during the twelve months ended December 31, 2013.

The fair value of the Level 3 liabilities is estimated using the Black-Scholes model including the following assumptions:

	<u>As of March 31, 2014</u>	<u>As of December 31, 2013</u>
Risk free interest rate	0.27%–1.26%	0.11%–1.32%
Expected life of option (years)	1.46–3.86	0.75–4.10
Expected volatility of stock	21.00%–38.00%	70.00%
Dividend yield	0.00%	0.00%

The Company historically issued stock options to non-employee consultants as a form of compensation for services provided to the Company. Once these non-employee options have vested, the awards no longer fall within the scope of ASC 505-50. Because the 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 vested options are no longer eligible for equity classification and are, thus, accounted for as derivative liabilities under FASB 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. In calculating the fair value of the options, they are estimated on the grant date using the Black-Scholes model subject to change in stock price utilizing assumptions of risk-free interest rate, contractual life of option, expected volatility and dividend yield. Due to the lack of certain observable market quotes, the Company utilizes valuation models that rely on some Level 3 inputs. The Company's estimate of volatility is based on the Company's trading history. 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 March 31, 2014:

Beginning Balance–January 1, 2014	\$ 350
Total gains/losses (realized/unrealized) included in earnings	(105)
Purchases (exercises)	(40)
Reclassification from equity to liability when fully vested	—
Ending Balance–March 31, 2014	<u>\$ 205</u>
Losses included in earnings (or changes in net assets attributable to the change in unrealized gains relating to assets held at reporting date)	<u>\$ 105</u>

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, 2013:

Beginning Balance–January 1, 2012	\$ 78
Total gains/losses (realized/unrealized) included in earnings	272
Purchases (exercises)	—
Reclassification from equity to liability when fully vested	—
Ending Balance–December 31, 2012	<u>\$ 350</u>
Gains included in earnings (or changes in net assets attributable to the change in unrealized losses relating to assets held at reporting date)	<u>\$(272)</u>

**Acquisition-Related Contingent Consideration.** The Company acquired 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 \$8,032 at March 31, 2014.

The estimated fair values of assets acquired and liabilities assumed in the acquisition of Estech are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that information provides a reasonable basis for estimating the fair values but the Company is waiting for additional information necessary to finalize those amounts, particularly with respect to the estimated fair value of intangible assets, deferred revenue, deferred taxes and goodwill. The potential for measurement period adjustments related to the acquired assets and assumed liabilities exists based on AtriCure's continuing review of all matters related to the acquisition. Such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

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

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

Beginning Balance – January 1, 2014	\$8,032
Amounts acquired (sold) or issued (settled), net	—
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	—
Ending Balance – March 31, 2014	<u>\$8,032</u>

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, 2013:

Beginning Balance – January 1, 2013	\$ —
Amounts acquired (sold) or issued (settled), net	8,032
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	—
Ending Balance – December 31, 2013	<u>\$8,032</u>

**4. INTANGIBLE ASSETS**

Intangible assets with definite lives are amortized over their estimated useful lives. The following table provides a summary of the Company's intangible assets with definite lives:

	Non-Compete Agreement	Fusion Technology	Clamp & Probe Technology	Estech Trade Name	Total
Net carrying amount as of December 31, 2012	\$ 32	\$ —	\$ —	\$ —	\$ 32
Amortization	(12)	—	—	—	(12)
Additions	—	9,242	829	208	10,279
Net carrying amount as of December 31, 2013	\$ 20	\$ 9,242	\$ 829	\$ 208	\$10,299
Amortization	(3)	(231)	(69)	(52)	(355)
Net carrying amount as of March 31, 2014	<u>\$ 17</u>	<u>\$ 9,011</u>	<u>\$ 760</u>	<u>\$ 156</u>	<u>\$ 9,944</u>

The Company's amortization term for a non-compete agreement is eight years. Fusion technology is being amortized over ten years, clamp and probe technology is being amortized over three years and the Estech trade name is being amortized over one year.

Amortization expense related to intangible assets with definite lives was \$355 and \$3 for the three months ended March 31, 2014 and 2013, respectively.

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

Year	Amortization
2014	\$ 1,066 April 1, 2014 through December 31, 2014
2015	1,208
2016	1,201
2017	924
2018	924
2019 and thereafter	4,621
Total	<u>\$ 9,944</u>

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

**5. ACCRUED LIABILITIES**

Accrued liabilities consisted of the following:

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Accrued commissions	\$ 2,330	\$ 3,827
Accrued bonus	786	6,849
Accrued settlement reserve	742	1,259
Accrued taxes and value-added taxes payable	619	907
Accrued vacation	543	476
Accrued retention and severance	904	22
Other accrued liabilities	506	1,062
Stock purchase plan withholdings	407	43
Withheld payroll taxes	341	546
Accrued payroll	270	233
Accrued royalties	244	307
Accrued non-employee stock options	205	350
Sales/returns allowance—trade	105	105
Accrued 401(k) match	52	84
Total	<u>\$ 8,054</u>	<u>\$ 16,070</u>

**6. INDEBTEDNESS**

The Company has had a debt agreement with Silicon Valley Bank (“SVB”) since May 1, 2009. The agreement, as amended, restated and modified, includes a \$15,000 revolving credit facility which matures on April 30, 2016. A \$10,000 term loan was part of the Company’s debt agreement with SVB until it was repaid in full in March 2014. The Company recorded \$37 of accelerated amortization expense related to deferred financing costs on the term loan in March 2014.

Effective April 30, 2014 the Company and SVB entered into a Joinder and Seventh Loan Modification Agreement which set forth certain amendments to the Company’s revolving credit facility with the bank. Key changes in this Modification Agreement included: (i) extending the expiration to April 30, 2016, (ii) increasing the revolving credit facility to \$15,000, (iii) reducing the unused revolving line facility fee, (iv) removing the US Export-Import Bank portion of the facility, and (v) adding the Company’s wholly-owned subsidiary, Endoscopic Technologies, LLC, as a borrower.

The debt agreement, as amended restated and modified, contains covenants that include, among others, covenants that limit the Company’s and its subsidiaries’ ability to dispose of assets, enter into mergers or acquisitions, incur indebtedness, incur liens, pay dividends or make distributions on the Company’s 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 the Company has outstanding borrowings under the revolving loan facility or when the Company achieves specific covenant milestones. Financial covenants under the credit facility, as amended, include a minimum EBITDA, a limitation on capital expenditures, and a minimum liquidity ratio. Further, a minimum fixed charge ratio applies when the Company achieves specific covenant milestones. None of the specific covenant milestones have been met as of March 31, 2014. 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 of the Company 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.

As of March 31, 2014 the Company had no borrowings under the revolving credit facility and had borrowing availability of approximately \$9,645. As of December 31, 2013 the Company had no borrowings under its revolving credit facility and borrowing availability of \$8,299. As of March 31, 2014 and December 31, 2013, \$0 and \$6,333, respectively, was outstanding under the term loan, which included \$2,000 classified as current maturities of long-term debt as of December 31, 2013. As of March 31, 2014 and December 31, 2013 the Company had an outstanding letter of credit of €75 issued to its European subsidiary’s corporate credit card program provider which will expire on June 30, 2015. In addition, if the guarantee by the Export-Import Bank of the United States ceases to be in full force and effect, the Company must repay all loans under the Export-Import agreement.

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

As of March 31, 2014 the Company had capital leases for computer and office equipment that expire at various terms through 2017, and the cost of the assets under lease was \$153. These assets are depreciated over their estimated useful lives, which equal the terms of the leases. Accumulated amortization on the capital leases was \$47 at March 31, 2014.

Maturities on capital lease obligations are as follows:

2014	\$ 28	April 1, 2014 through December 31, 2014
2015	38	
2016	30	
2017	11	
Total	<u>\$107</u>	

## 7. COMMITMENTS AND CONTINGENCIES

### *Operating Leases*

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

### *Royalty Agreements*

The Company has certain royalty agreements in place with terms that include payment of royalties based on product revenue from sales of 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 1.5% to 5% of 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 \$307 and \$322 was recorded as part of cost of revenue for the three months ended March 31, 2014 and 2013, respectively.

### *Purchase Agreements*

The Company has had a purchase agreement with MicroPace Pty Ltd Inc. ("MicroPace") since June 2007. The agreement, as amended, provides for MicroPace to produce a derivative of one of their products tailored for the cardiac surgical environment, known as the MicroPace ORLab™ ("ORLab") for worldwide distribution by the Company. Pursuant to the terms of the amended agreement, in order for the Company to retain exclusive distribution rights of the ORLab, the Company is required to purchase a minimum number of units during a specific time period to extend exclusivity through the following year. Units purchased in excess of yearly minimums reduce future minimum purchase requirements. The current terms of the amended agreement require the Company to purchase a minimum of 40 units between December 1, 2013 and December 31, 2014 to extend the exclusivity period to January 1, 2015 to December 31, 2016. The Company has purchased 84 units since December 1, 2013.

In April 2012 the Company entered into a development and manufacturing services agreement with Stellartech Research Corporation ("Stellartech"). Under the terms of the agreement, Stellartech will provide development services for the next generation of the Company's radio frequency generators and will manufacture at least the first 300 units of the product. The agreement also establishes Stellartech as the exclusive supplier of the generators during the three years after product completion. There is no minimum purchase requirement beyond the initial 300 units.

### **Legal**

The Company is not party to any material pending or threatened litigation, except as described below:

#### ***Department of Justice Investigation***

In October 2008 the Company received a letter from the Department of Justice ("DOJ") informing the Company that it was conducting an investigation for potential False Claims Act ("FCA") and common law violations relating to its surgical ablation devices. Specifically, the letter stated that the DOJ was investigating the Company's marketing practices utilized in connection with its surgical ablation system to treat Afib, a specific use outside the FDA's 510(k) clearance. The letter also stated that the DOJ was investigating whether the Company instructed hospitals to bill Medicare for cardiac surgical ablation using incorrect billing codes. The Company cooperated with the investigation and operated its business in the ordinary course during the investigation. In December 2009 the Company reached a tentative settlement with the DOJ to resolve the investigation and recorded a liability and charged operating expenses for a total of \$3,956, which represented the net present value of the proposed settlement amount to be paid to the DOJ, the Relator, and Relator's counsel (total payments based on the settlement inclusive of interest were estimated to be \$4,350, payable over five years).



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

The settlement was finalized pursuant to the preliminary terms in February 2010, and the Company entered into a settlement agreement with the DOJ, the Office of the Inspector General (“OIG”), and the Relator in the *qui tam* complaint discussed below. The settlement agreement definitively resolved all claims related to the DOJ investigation. The Company did not admit nor will it admit to any wrongdoing in connection with the settlement. As of March 31, 2014 the Company had made \$3,600 in payments (including interest), and had a liability related to this settlement totaling \$742, all of which was classified as current.

As part of the resolution, the Company also entered into a five year Corporate Integrity Agreement with the OIG. This agreement acknowledges the existence of the Company’s corporate compliance program and provides for certain other compliance-related activities during the five year term of the agreement. Those activities include specific written standards, monitoring, training, education, independent review, disclosure and reporting requirements.

The Company may, from time to time, become a party to additional 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 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 and is fully reserved.

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 March 31, 2014 and 2013 was (0.35%) and (0.26%), respectively.

The Company has not had to accrue any interest and penalties related to unrecognized income tax benefits. However, when or 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 (the “2001 Plan”), the 2005 Equity Incentive Plan (the “2005 Plan”) and the 2008 Employee Stock Purchase Plan (the “ESPP”).

### **2001 Plan and 2005 Plan**

The 2001 Plan is no longer used for granting incentives. Under the 2005 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, stock appreciation rights, performance units or performance shares 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 exercise price of options, the number of shares subject to each award, the exercisability of the awards and the form of consideration.

Options granted under the plans generally expire ten years from the date of grant. Options granted from the 2005 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 vest 25% annually over four years from date of grant.

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

As of March 31, 2014 7,649 shares of common stock had been reserved for issuance under the 2005 Plan. The shares authorized for issuance under the 2005 Plan include: (a) shares reserved but unissued under the 2001 Plan as of August 10, 2005, (b) shares returned to the 2001 Plan as the result of termination of options or the repurchase of shares issued under such plan, and (c) annual increases in the number of shares available for issuance on the first day of each year equal to the lesser of:

- 3.25% of the outstanding shares of common stock on the first day of the fiscal year;
- 825 shares; or
- an amount the Company’s Board of Directors may determine.

On January 1, 2014 an additional 756 shares were authorized for issuance under the 2005 Plan representing 3.25% of the outstanding shares on that date. As of March 31, 2014 there were 1,067 shares available for future grants under the plans.

Activity under the Plans during the three months ended March 31, 2014 was as follows:

	Number of Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
<b>Time-Based Stock Options</b>				
Outstanding at January 1, 2014	2,423	\$ 8.61		
Granted	488	20.35		
Exercised	(157)	8.89		
Cancelled or forfeited	(18)	9.67		
Outstanding at March 31, 2014	<u>2,736</u>	<u>\$ 10.68</u>	<u>7.1</u>	<u>\$ 23,072</u>
Vested and expected to vest	<u>2,576</u>	<u>\$ 10.51</u>	<u>6.9</u>	<u>\$ 22,085</u>
Exercisable at March 31, 2014	<u>1,274</u>	<u>\$ 9.00</u>	<u>4.7</u>	<u>\$ 12,491</u>
		Number of Shares Outstanding	Weighted Average Grant Date Fair Value	
<b>Restricted Stock</b>				
Outstanding at January 1, 2014		248	\$ 7.75	
Granted		341	20.62	
Released		(12)	8.90	
Forfeited		(1)	9.15	
Outstanding at March 31, 2014		<u>576</u>	<u>\$ 15.34</u>	

The total intrinsic value of options exercised during the three month periods ended March 31, 2014 and 2013 was \$1,851 and \$464, respectively. As a result of the Company’s tax position, no tax benefit was recognized related to the stock option exercises. For the three month periods ended March 31, 2014 and 2013, respectively, \$1,395 and \$1,002 in cash proceeds was included in the Company’s Condensed Consolidated Statements of Cash Flows as a result of the exercise of stock options. The total fair value of restricted stock vested during the three month periods ended March 31, 2014 and 2013 was \$261 and \$607 respectively. The exercise price per share of each option is equal to the fair market value of the underlying share on the date of grant. The Company issues registered shares of common stock to satisfy stock option exercises and restricted stock grants.

The Company recognized expense related to time-based stock options and restricted stock for the three months ended March 31, 2014 and 2013 of \$732 and \$383, respectively. As of March 31, 2014 there was \$18,471 of unrecognized compensation costs related to unvested time-based stock option and restricted stock arrangements (\$10,303 relating to stock options and \$8,168 relating to restricted stock). This cost is expected to be recognized over a weighted average period of 3.0 years for stock options and 3.3 years for restricted stock.

The Company awarded 225 performance options to its new President and Chief Executive Officer (“CEO”) when he joined the Company in November 2012, and an additional 225 performance options were awarded to the CEO in January 2014. The options expire ten years from the date of grant and vest in increments of 25 shares when the volume adjusted weighted average closing price of the common stock of the Company as reported by NASDAQ (or any other exchange on which the common stock of the Company

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

is listed) for 30 consecutive days equals or exceeds each of \$10.00 per share, \$12.50 per share, \$15.00 per share, \$17.50 per share, \$20.00 per share, \$25.00 per share, \$30.00 per share, \$35.00 per share and \$40.00 per share. In accordance with FASB ASC 718, a Monte Carlo simulation was performed for both grants to estimate the fair values, vesting terms and vesting probabilities for each tranche of options. Expense calculated using these estimates is being recorded over the estimated vesting terms. The Company recognized expense of \$1,302 and \$38 related to the performance options during the three months ended March 31, 2014. All expense related to the vested performance options has been recorded as of March 31, 2014. There was \$1,324 of unrecognized compensation cost related to unvested performance options as of March 31, 2014. This cost is expected to be recognized over a weighted-average period of 1.4 to 3.8 years. The \$10.00, \$12.50, \$15.00, \$17.50 and \$20.00 market conditions were met as of March 31, 2014; therefore, 250 of the performance options were exercisable.

**Employee Stock Purchase Plan (ESPP)**

During 2008 the Company established its 2008 Employee Stock Purchase Plan (“ESPP”) 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 2.5 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 March 31, 2014 there were 663 shares available for future issuance under the ESPP. Share-based compensation expense with respect to the ESPP was \$108 and \$59 for the three months ended March 31, 2014 and 2013, respectively.

**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 months ended March 31, 2014 and 2013. This expense was allocated as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Cost of revenue	\$ 71	\$ 58
Research and development expenses	132	41
Selling, general and administrative expenses	1,939	419
Total share-based compensation expense related to employees	<u>\$ 2,142</u>	<u>\$ 518</u>

In calculating compensation expense, the fair value of the options is estimated on the grant date using the Black-Scholes model including the following assumptions:

	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Risk free interest rate	1.56%–2.12%	0.89%–1.51%
Expected life of option (years)	5.33–6.17	5.31–7.38
Expected volatility of stock	68.00%–70.00%	69.00%
Weighted-average volatility	70.00%	69.00%
Dividend yield	0.00%	0.00%

The Company’s estimate of volatility is based solely on the Company’s trading history. The risk-free interest rate assumption is based upon the U.S. treasury yield curve at the time of grant for the expected option life. The Company estimates the expected terms of options using historical employee exercise behavior adjusted for abnormal activity.

The fair value of restricted stock awards is based on the market value of the Company’s stock on the date of the awards.

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

Based on the assumptions noted above, the weighted average estimated fair value per share of the stock options and restricted stock granted for the respective periods was as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Stock options	\$ 12.90	\$ 5.43
Restricted stock	20.62	—

In calculating compensation expense for performance options, the fair value of the options was estimated on the grant date using a Monte Carlo simulation including the following assumptions:

	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Strike price	\$5.91–\$21.04	\$ 5.91
Contractual term (years)	10.00	10.00
Expected volatility of stock	60.50%–69.60%	69.60%
Expected rate of return	1.75%–2.73%	1.75%
Dividend yield	0.00%	0.00%

The contractual term assumes that the performance options issued to a high ranking executive of the Company upon hire will be held until expiration. Expected volatility is estimated based on the Company's trading history. The expected rate of return assumption is based upon the U.S. treasury yield curve at the time of grant for the expected option life.

Based on the assumptions noted above, the estimated grant date fair value per share of the performance options granted were as follows:

	<u>Price Target</u>	<u>Fair Value of 2012 Grant</u>	<u>Fair Value of 2014 Grant</u>
Tranche 1	\$ 10.00	\$ 4.32	\$ 14.74
Tranche 2	12.50	4.30	14.74
Tranche 3	15.00	4.27	14.74
Tranche 4	17.50	4.23	14.74
Tranche 5	20.00	4.19	14.73
Tranche 6	25.00	4.10	14.73
Tranche 7	30.00	4.01	14.71
Tranche 8	35.00	3.92	14.67
Tranche 9	40.00	3.83	14.61

### ***Non-Employee Stock Compensation***

The Company historically issued nonstatutory common stock options to consultants to purchase shares of common stock as a form of compensation for services provided to the Company. Such options vest over a service period ranging from immediately to four years. After January 1, 2006 all stock options granted to non-employee consultants have a four year vesting period and vest at a rate of 25% on the first anniversary date of the grant and ratably each month thereafter.

The Company accounted for the options granted to non-employees prior to their vesting date in accordance with ASC 505-50. Because these options did not contain specific performance provisions, there was no measurement date of fair value until the options vested. Therefore, the fair value of the options granted and outstanding prior to their vesting date was remeasured each reporting period. The fair value was determined using the Black-Scholes model. No non-employee stock options have been granted since 2008. The values attributable to the unvested portion of the non-employee stock options were amortized over the service period on a graded vesting method, and the vested portion of these stock options was remeasured at each vesting date. As of March 31, 2014 all non-employee consultant options were fully vested.

Once these non-employee consultant stock options have vested, the awards no longer fall within the scope of ASC 505-50. Because the stock options require settlement by the Company's delivery of registered shares and because the tax withholding provisions in the awards allow the stock options to be partially net-cash settled, these vested stock options are no longer eligible for equity classification and are, thus, accounted for as derivative liabilities under FASB ASC 815 until the stock options are ultimately either exercised or forfeited. Accordingly, the vested non-employee consultant stock options are classified as liabilities and remeasured at fair value through earnings at each reporting period. During the three months ended March 31, 2014 and 2013, (\$98)

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

and \$14, respectively, of (income) expense was recorded as a result of the remeasurement of the fair value of these stock options. As of March 31, 2014 and December 31, 2012, fully vested stock options to acquire 33 and 38 shares of common stock held by non-employee consultants remained unexercised and a liability of \$205 and \$350 was included in accrued liabilities in the Condensed Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013, respectively.

## 10. SEGMENT AND GEOGRAPHIC INFORMATION

The Company considers 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 by geographic area was as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
United States	\$ 18,143	\$ 14,639
Europe	4,308	2,620
Asia	2,292	2,061
Other international	104	110
Total international	<u>6,704</u>	<u>4,791</u>
Total revenue	<u>24,847</u>	<u>19,430</u>

Domestic revenue by product type was as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Open-heart ablation	\$ 10,377	\$ 9,121
Minimally invasive ablation	3,448	3,132
AtriClip	3,620	2,386
Total ablation and AtriClip	17,445	14,639
Valve tools	698	—
Total domestic	<u>18,143</u>	<u>14,639</u>

International revenue by product type was as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Open-heart ablation	\$ 3,971	\$ 3,258
Minimally invasive ablation	2,003	1,334
AtriClip	443	199
Total ablation and AtriClip	6,417	4,791
Valve tools	287	—
Total international	<u>6,704</u>	<u>4,791</u>

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

## 11. PUBLIC OFFERING OF COMMON STOCK

In January 2013 the Company completed a public offering of common stock under its July 2011 shelf registration. The Company sold 3,996 shares of common stock, par value \$0.001 per share, at a price of \$7.25 per share, generating proceeds of \$26,872 after expenses. Offering costs were recorded in additional paid in capital to offset proceeds.

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 \$65,872 after expenses. Offering costs were recorded in additional paid in capital to offset proceeds.

## **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, 2013 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, 2013. 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 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. Our Synergy Ablation System (“Synergy System”) is the first and only device approved by the United States Food and Drug Administration (“FDA”) for the surgical treatment of persistent and long-standing persistent forms of Afib in patients undergoing certain open concomitant procedures. We have two primary product lines for the ablation of cardiac tissue. Our primary product line for the ablation of cardiac tissue is our Synergy System, a bipolar ablation clamp system and related radiofrequency (“RF”) ablation devices. We also offer a cryoablation product line, which features reusable and disposable cryoablation devices. Additionally, we offer the AtriClip™ Gillinov-Cosgrove Left Atrial Appendage (“LAA”) System (“AtriClip system”), which is designed to safely and effectively exclude the left atrial appendage and is the most widely implanted device for LAA management worldwide.

Cardiothoracic surgeons have adopted our RF ablation and cryoablation systems to treat Afib in an estimated 152,000 patients since January 2003, and we believe that we are currently the market leader in the surgical treatment of Afib. Our products are utilized by cardiothoracic surgeons during concomitant open-heart surgical procedures and also during sole-therapy minimally invasive cardiac ablation procedures. During a concomitant open 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 or coronary bypass. Additionally, although our products are not FDA-approved for this specific use, cardiothoracic surgeons have adopted our products as a treatment alternative for Afib patients who may be candidates for sole-therapy minimally invasive surgical procedures. Our Synergy System, which includes our Isolator® Synergy clamps, an RF generator and related switchbox, is approved by the FDA for the treatment of patients with persistent and long-standing persistent Afib during open-heart concomitant coronary artery bypass grafting and/or valve replacement or repair procedures. To date, none of our other products have been approved or cleared by the FDA for the treatment of other forms of Afib or for other uses for the treatment of Afib. Additionally, the FDA has not cleared or approved our products for a reduction in the risk of stroke. 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 for the treatment of Afib, for the exclusion of the left atrial appendage or for mitral and aortic valve procedures.

### **Recent Developments**

The December 2011 FDA approval of our Synergy System included the requirement to implement a 350-patient post-approval study (“PAS”). The trial is designed to evaluate the long-term treatment effect of our Synergy Ablation System in persistent and long-standing persistent Afib patients undergoing open-heart procedures. We submitted a protocol for the PAS to the FDA in February 2012, and it was approved in September 2012. Approximately 282 patients have been enrolled in the trial. The approval also included the requirement to implement a physician training and education program for existing and new users.

## [Table of Contents](#)

We are also conducting a Staged DEEP AF Feasibility clinical trial. The Staged DEEP AF trial protocol was submitted to the FDA in February 2012. The trial evaluates the effectiveness of a staged approach, where a minimally invasive ablation procedure is performed initially and the catheter and mapping optimization procedure is performed on a different day during the same hospitalization. Final FDA approval was received in June 2012. Enrollment in the Staged DEEP trial was initiated during the third quarter of 2012 and is complete with 30 patients enrolled at six medical centers.

We are also in the initial start-up of a Stroke Feasibility clinical trial with the AtriClip. The Stroke Feasibility trial protocol was initially approved by the FDA in December 2011. An amendment to the protocol was submitted to the FDA and approved in October 2013. The trial evaluates the initial procedural safety and efficacy of the AtriClip for stroke prophylaxis (i.e. prevention of stroke) in patients with non-valvular Afib in whom long term oral anticoagulation therapy is medically contraindicated. We have 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.

A provision of The Patient Protection and Affordable Care Act enacted in 2010, as amended, (the "Affordable Care Act") requires manufacturers of medical devices to pay an excise tax on all U.S. medical device sales beginning in January 2013. We recorded \$114 related to the medical device excise tax in cost of revenue during the three months ended March 31, 2014 and \$120 during the three months ended March 31, 2013.

On December 31, 2013 we acquired Endoscopic Technologies, Inc. ("Estech") by issuing 2,126,343 shares of common stock to shareholders of Estech as consideration and up to \$26,000 in additional consideration based on the achievement of certain performance based milestones. The product portfolio acquired includes innovative surgical ablation devices that enable physicians to perform a variety of traditional and minimally invasive procedures using Estech's proprietary temperature controlled RF energy.

Our financial position was strengthened by our public offering of 3,996,250 shares of common stock in January 2013, which generated net proceeds of \$26,872. We further strengthened our financial position through a public offering of 3,660,525 shares of common stock in February 2014, which generated net proceeds of \$65,872. We believe our current financial position will support the execution of our strategic plan.

## Results of Operations

### *Three months ended March 31, 2014 compared to three months ended March 31, 2013*

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 March 31,			
	2014		2013	
	Amount	% of Revenues	Amount	% of Revenues
Revenue	\$24,847	100.0%	\$19,430	100.0%
Cost of revenue	7,190	28.9%	5,344	27.5%
Gross profit	17,657	71.1%	14,086	72.5%
Operating expenses:				
Research and development expenses	4,001	16.1%	3,506	18.0%
Selling, general and administrative expenses	21,581	86.9%	12,380	63.8%
Total operating expenses	25,582	103.0%	15,886	81.8%
Loss from operations	(7,925)	(31.9%)	(1,800)	(9.3%)
Other income (expense):				
Interest expense	(237)	(1.0%)	(173)	(0.9%)
Interest income	14	0.1%	4	0.0%
Other	466	1.9%	31	0.2%
Total other income (expense)	243	1.0%	(138)	(0.7%)
Loss before income tax expense	(7,682)	(30.9%)	(1,938)	(10.0%)
Income tax expense	27	0.1%	5	0.0%
Net loss	<u>\$ (7,709)</u>	<u>(31.0%)</u>	<u>\$ (1,943)</u>	<u>(10.0%)</u>

## [Table of Contents](#)

**Revenue.** Total revenue increased 27.9% (27.0% on a constant currency basis) from \$19,430 for the three months ended March 31, 2013 to \$24,847 for the three months ended March 31, 2014. Revenue from sales to customers in the United States increased \$3,504, or 23.9%, and revenue from sales to international customers increased \$1,913, or 39.9% (36.4% 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 \$1,256 and increased sales of the AtriClip system of \$1,234. The increase in international revenue was primarily due to an increase in sales in Europe and Asia. Revenue from both the United States and Europe were positively impacted by the addition of products from the Estech acquisition.

**Cost of revenue and gross margin.** Cost of revenue increased \$1,846, from \$5,344 for the three months ended March 31, 2013 to \$7,190 for the three months ended March 31, 2014. The increase was partially due to approximately \$200 in expenses related to the transition of the Estech business. As a percentage of revenue, cost of revenue increased from 27.5% for the three months ended March 31, 2013 to 28.9% for the three months ended March 31, 2014. Gross margin for the three months ended March 31, 2014 and 2013 was 71.1% and 72.5%, respectively. The decrease in gross margin was primarily due to an increased mix of international sales, which carry lower gross margins, and an increase in costs related to the recently-acquired Estech products.

**Research and development expenses.** Research and development expenses increased \$495, from \$3,506 for the three months ended March 31, 2013 to \$4,001 for the three months ended March 31, 2014. Approximately \$200 of the increase was due to expenses related to the transition of the Estech business. The remaining increase in expense was primarily due to a \$938 increase in product development, regulatory and clinical personnel expense and a \$298 increase in clinical trial spending, offset by a \$1,080 decrease in clinical affairs consulting.

**Selling, general and administrative expenses.** Selling, general and administrative expenses increased \$9,201, or 74.3%, from \$12,380 for the three months ended March 31, 2013 to \$21,581 for the three months ended March 31, 2014. Approximately \$2,200 of the increase in expense was due to transaction, transition and severance expense related to the acquisition of Estech. The remaining increase was due to an increase in sales, marketing and training expenditures.

**Net interest expense.** Net interest expense for the three months ended March 31, 2014 and 2013 was \$223 and \$169, respectively. Net interest expense primarily represents interest expense related to amounts outstanding on our term loan, amortization of debt issuance costs and expense related to the payoff of our term loan.

**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 income for the three months ended March 31, 2014 and 2013 totaled \$466 and \$31, respectively.

### **Liquidity and Capital Resources**

As of March 31, 2014 the Company had cash, cash equivalents and investments of \$79,355 and short-term and long-term debt of \$0, resulting in a net cash position of \$79,355. We had unused borrowing capacity of approximately \$9,645 under our revolving credit facility. We had net working capital of \$91,235 and an accumulated deficit of \$129,922 as of March 31, 2014.

**Cash flows used in operating activities.** Net cash used in operating activities for the three months ended March 31, 2014 was \$14,398. The primary net uses of cash for operating activities were as follows:

- the net loss of \$7,709, offset by \$3,461 of non-cash expenses, including \$2,142 in share-based compensation and \$1,085 in depreciation and amortization; and
- a net increase in cash used related to changes in operating assets and liabilities of \$10,150, due primarily to the following:
  - an increase in accounts receivable of \$1,045, due primarily to an increase in sales during the first quarter of 2014 as compared to the first quarter of 2013;
  - an increase in inventory of \$862, due primarily to increased inventory levels in support of new products and anticipated revenue growth; and
  - a \$8,500 decrease in accounts payable and accrued liabilities due primarily to the timing of payments, Estech acquisition expenses and variable compensation payments based on strong 2013 results.

**Cash flows used in investing activities.** Net cash provided by investing activities was \$7,414 for the three months ended March 31, 2014. The primary sources of cash from investing activities were \$2,550 in maturities of available-for-sale securities and \$5,884 in sales of available-for-sale securities. This was partially offset by the use of \$1,020 related to the purchase of equipment, which consisted primarily of the placement of our RF and cryo generators with our customers.

**Cash flows provided by financing activities.** Net cash provided by financing activities during the three months ended March 31, 2014 was \$60,736, which was primarily due to proceeds from the sale of stock of \$65,872 and proceeds from stock option exercises of \$1,395, partially offset by shares repurchased for payment of taxes on stock awards of \$88 and debt and capital lease payments of \$6,343.



## [Table of Contents](#)

**Credit facility.** The Company's Loan and Security Agreement with Silicon Valley Bank ("SVB"), as amended, restated, and modified (the "Agreement") provides for a revolving credit facility under which we could borrow a maximum of \$15,000. As of March 31, 2014 we had no borrowings under the revolving credit facility, and we had borrowing availability of approximately \$9,645. The applicable borrowing rate on the revolving facility is the prime rate during a Streamline Period and prime plus 1.25% during a Non-Streamline Period, and the revolving credit facility expires on April 30, 2016. The Company repaid the term loan portion of the credit facility in full in March 2014, resulting in \$0 outstanding under the term loan as of March 31, 2014.

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 loan facility or when we achieve specific covenant milestones. Financial covenants include a limitation on capital expenditures and a minimum liquidity ratio. Further, a minimum fixed charge ratio and a minimum EBITDA apply when specific events occur. 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. As of and for the period ended March 31, 2014 we were in compliance with all of the financial covenants of our amended and modified credit facility. In addition, if the guarantee by the Export-Import Bank of the United States ceases to be in full force and effect, we must repay all loans under the Export-Import agreement.

We have an outstanding letter of credit of €75 issued to our European subsidiary's corporate credit card provider which will expire on June 30, 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 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 July 2011 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 January 2013 we sold approximately 3,996,250 shares of common stock under the shelf registration which resulted in net proceeds of approximately \$26,872.

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 \$65,872.

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 facilities require 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 March 31, 2014 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 decline in revenue that we attribute primarily to the elective nature of the procedures in which our products are used, which we believe arises from 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 (“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, 2013 includes additional information about the Company, our operations, our financial position, our critical accounting policies and accounting 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 March 31, 2014 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, 2013.

## 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 (the “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 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 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 March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Item 5. Other Information

Pursuant to Items 1.01 and 2.03 of Form 8-K, the first four paragraphs under Note 6 (Indebtedness) above are repeated and incorporated herein by reference under this Item 5. The description of the Modification Agreement is qualified in its entirety by the full text of the Modification Agreement as filed with this Form 10-Q as Exhibit 10.1.

**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 Part I, “Item 1A. Risk Factors” in our Form 10-K for the year ended December 31, 2013, 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, 2013.

## [Table of Contents](#)

### **Item 6. Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
10.1	Joinder and Seventh Loan Modification Agreement, dated as of April 30, 2014, between Silicon Valley Bank and AtriCure, Inc.
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

**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: April 30, 2014

/s/ Michael H. Carrel

---

**Michael H. Carrel**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

Date: April 30, 2014

/s/ M. Andrew Wade

---

**M. Andrew Wade**  
**Vice President and Chief Financial Officer**  
**(Principal Accounting and Financial Officer)**

**EXHIBIT INDEX**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
10.1	Joinder and Seventh Loan Modification Agreement, dated as of April 30, 2014, between Silicon Valley Bank and AtriCure, Inc.
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

## JOINDER AND SEVENTH LOAN MODIFICATION AGREEMENT

This Joinder and Seventh Loan Modification Agreement (this “**Loan Modification Agreement**”) is entered into and effective as of April 30, 2014 (the “**Seventh Loan Modification Effective Date**”), by and between (i) **SILICON VALLEY BANK**, a California corporation, with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054 and with a loan production office located at 380 Interlocken Crescent, Suite 600, Broomfield, Colorado 80021 (“**Bank**”), (ii) **ATRICURE, INC.**, a Delaware corporation with its chief executive office located at 6217 Centre Park Drive, West Chester, Ohio 45069 (“**Atricure**”), (iii) **ATRICURE, LLC**, a Delaware limited liability company (“**Atricure LLC**”, and together with Atricure, individually and collectively, jointly and severally, the “**Borrower**”) and (iv) **ENDOSCOPIC TECHNOLOGIES, LLC**, a Delaware limited liability company (the “**New Borrower**”).

1. **DESCRIPTION OF EXISTING INDEBTEDNESS AND OBLIGATIONS.** Among other indebtedness and obligations which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to a loan arrangement dated as of September 13, 2010, evidenced by, among other documents, a certain Amended and Restated Loan and Security Agreement dated as of September 13, 2010, between Borrower and Bank, as further amended by a certain First Loan Modification Agreement entered into and effective as of March 15, 2011, as further amended by a certain Second Loan Modification Agreement, entered into and effective as of February 2, 2012, as further amended by a certain Third Loan Modification Agreement, dated as of May 31, 2012, as further amended by a certain Fourth Loan Modification Agreement, dated as of September 26, 2012, as further amended by a certain Joinder and Fifth Loan Modification Agreement, dated as of January 30, 2013 and as further amended by a certain Sixth Loan Modification Agreement, dated as of March 29, 2013 (as amended, the “**Loan Agreement**”). Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Loan Agreement.

2. **DESCRIPTION OF COLLATERAL.** Repayment of the Obligations is secured by the Collateral as described (i) in the Loan Agreement; (ii) in a certain Amended and Restated Joint Intellectual Property Security Agreement dated as of the Seventh Loan Modification Effective Date (the “**IP Agreement**”); and (iii) a certain Unconditional Guaranty dated as of September 26, 2012, a certain Guarantor Security Agreement, dated as of September 26, 2012 and the Dutch Security Documents, in each case executed by Atricure Europe, B.V., a company organized under the laws of The Netherlands and a wholly owned Subsidiary of Borrower (the documents described in the foregoing clauses (i) through (iv), together with any other collateral security granted to Bank, are collectively referred to as the “**Security Documents**”).

Hereinafter, the Security Documents, together all other documents evidencing or securing the Obligations shall be referred to as the “**Existing Loan Documents**”.

3. **JOINDER AND ASSUMPTION.** New Borrower is a wholly owned Subsidiary of Atricure. New Borrower hereby joins the Loan Agreement and each of the other appropriate Existing Loan Documents, and agrees to comply with and be bound by all of the terms, conditions and covenants of the Loan Agreement and each of the other appropriate Existing Loan Documents, as if New Borrower were originally named a “Borrower”, “Grantor” and/or a “Debtor” therein. Without limiting the generality of the preceding sentence, New Borrower hereby assumes and agrees to pay and perform when due all present and future indebtedness, liabilities and obligations of Borrower under the Loan Agreement, including, without limitation, the Obligations. From and after the date hereof, all references in the Existing Loan Documents to “Borrower” and/or “Debtor” shall be deemed to refer to and include New Borrower. Further, all present and future Obligations of Borrower shall be deemed to refer to all present and future Obligations of New Borrower. New Borrower acknowledges that the Obligations are due and owing to Bank from Borrower including, without limitation, New Borrower, without any defense, offset or counterclaim of any kind or nature whatsoever as of the date hereof.

4. **GRANT OF SECURITY INTEREST.** To secure the payment and performance of all of the Obligations, New Borrower hereby grants to Bank a continuing lien upon and security interest in all of New Borrower’s now existing or hereafter arising rights and interest in the Collateral, whether now owned or existing or hereafter created, acquired, or arising, and wherever located, including, without limitation, all of New Borrower’s assets listed on **Exhibit A** attached hereto and all of New Borrower’s books and records relating to the foregoing and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories,

accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing. New Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that may have superior priority to Bank's Lien under the Loan Agreement). If New Borrower shall acquire a commercial tort claim, such New Borrower shall promptly notify Bank in a writing signed by such New Borrower of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank. New Borrower further covenants and agrees that by its execution hereof it shall provide all such information, complete all such forms, and take all such actions, and enter into all such agreements, in form and substance reasonably satisfactory to Bank that are reasonably deemed necessary by Bank in order to grant and continue a valid, first perfected security interest to Bank in the Collateral. New Borrower hereby authorizes Bank to file financing statements, without notice to any Borrower, with all appropriate jurisdictions in order to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by either any Borrower or any other Person, may be deemed to violate the rights of Bank under the Code. Such financing statements may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in Bank's discretion.

5. **SUBROGATION AND SIMILAR RIGHTS.** Borrower (in each case including, without limitation, New Borrower) waives any suretyship defenses available to it under the Code or any other applicable law. Borrower waives any right to require Bank to: (i) proceed against any other Borrower or any other Person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Bank may exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Borrower's liability. Notwithstanding any other provision of this Loan Modification Agreement, the Loan Agreement, or any other Loan Documents, Borrower irrevocably subordinates to the prior payment in full of the Obligations and the termination of the Bank's commitment to make Credit Extensions to Borrower and agrees not to assert or enforce prior to the payment in full of the Obligations and the termination of the Bank's commitment to make Credit Extensions to Borrower, all rights that it may have at law or in equity (including, without limitation, any law subrogating such Borrower to the rights of Bank under the Loan Agreement), to seek contribution, indemnification or any other form of reimbursement from any other Borrower or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by a Borrower with respect to the Obligations in connection with the Loan Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by any Borrower with respect to the Obligations in connection with the Loan Agreement or otherwise. If any payment is made to any Borrower in contravention of this section, such Borrower shall hold such payment in trust for Bank and such payment shall be promptly delivered to Bank for application to the Obligations, whether matured or unmatured. Any Borrower may, acting singly, request Credit Extensions under the Loan Agreement. Each Borrower hereby appoints each other Borrower as agent for the other for all purposes under the Loan Agreement, including with respect to requesting Credit Extensions thereunder. Each Borrower shall be jointly and severally obligated to repay all Credit Extensions made under the Loan Agreement or any other Loan Documents, regardless of which Borrower actually received said Credit Extension, as if each Borrower directly received all Credit Extensions.

6. **REPRESENTATIONS AND WARRANTIES.** Except as described in the revised Perfection Certificate delivered in connection herewith, Borrower hereby represents and warrants to Bank that all representations and warranties in the Loan Documents made on the part of any Borrower are true and correct on the date hereof with respect to New Borrower, with the same force and effect as if New Borrower were originally named as "Borrower" in the Loan Documents. In addition, Borrower and New Borrower hereby represent and warrant to Bank that this Loan Modification Agreement has been duly executed and delivered by Borrower and New Borrower, and constitutes their legal, valid and binding obligation, enforceable against each in accordance with its terms, except as may be limited by applicable bankruptcy or insolvency laws or laws affecting the rights of creditors generally or by principals of equity. Hereafter, each reference to "Borrower" and/or "Debtor" in any Loan Document shall be deemed to reference both Borrower and New Borrower.

7. **DESCRIPTION OF CHANGE IN TERMS.**

A. Modifications to Loan Agreement.



- 1 The Loan Agreement shall be amended by deleting Sections 2.1.5, 2.1.6 and 2.1.7 thereof, each in its entirety.
- 2 The Loan Agreement shall be amended by deleting the following text appearing as Section 2.3(a)(ii) thereof, in its entirety:  
“(ii) Term Loan 2012. Subject to Section 2.3(b), the principal amount outstanding under the Term Loan 2012 shall accrue interest at a per annum rate equal to four and three quarters percent (4.75%), which interest shall be payable monthly in accordance with Section 2.1.7(c).”
- 3 The Loan Agreement shall be amended by deleting the following text appearing as Section 2.4(a) thereof:  
“(a) EXIM Loan Agreement Commitment Fee. A fully earned, nonrefundable EXIM Loan Agreement commitment fee of Sixteen Thousand Three Hundred Fifty Dollars (\$16,350), payable on the Effective Date;”  
and inserting in lieu thereof the following:  
“(a) [Intentionally omitted;]”
- 4 The Loan Agreement shall be amended by deleting the following text appearing as Section 2.4(d) and Section 2.4(e) thereof:  
“(d) Termination Fee. Subject to the terms of Section 2.1.7(e) with respect to the Term Loan 2012 and Section 12.1 with respect to the Revolving Line, a termination fee;  
(e) Unused Revolving Line Facility Fee. A fee (the “**Unused Revolving Line Facility Fee**”), payable monthly, in arrears, on a calendar year basis, in an amount equal to three-eighths of one percent (0.375%) per annum of the average unused portion of the Revolving Line. The unused portion of the Revolving Line, for purposes of this calculation, shall equal the difference between (x) the Revolving Line amount (as it may be reduced from time to time) and (y) the average for the period of the daily closing balance of the Revolving Line outstanding. Borrower shall not be entitled to any credit, rebate or repayment of any Unused Revolving Line Facility Fee previously earned by Bank pursuant to this Section notwithstanding any termination of the Agreement or the suspension or termination of Bank’s obligation to make loans and advances hereunder;”  
and inserting in lieu thereof the following:  
“(d) Termination Fee. Subject to the terms of Section 12.1 with respect to the Revolving Line, a termination fee;  
(e) Unused Revolving Line Facility Fee. A fee (the “**Unused Revolving Line Facility Fee**”), payable monthly, in arrears, on a calendar year basis, in an amount equal to one-quarter of one percent (0.25%) per annum of the average unused portion of the Revolving Line. The unused portion of the Revolving Line, for purposes of this calculation, shall equal the difference between (x) the Revolving Line amount (as it may be reduced from time to time) and (y) the average for the period of the daily closing balance of the Revolving Line outstanding. Borrower shall not be entitled to any credit, rebate or repayment of any Unused Revolving Line Facility Fee previously earned by Bank pursuant to this Section notwithstanding any termination of the Agreement or the suspension or termination of Bank’s obligation to make loans and advances hereunder;”

- 5 The Loan Agreement shall be amended by deleting the following text appearing in Section 4.2 thereof:
- “Notwithstanding the foregoing, it is expressly acknowledged and agreed that the security interest created in this Agreement only with respect to Export-Related Accounts Receivable, Export-Related Inventory and Export-Related General Intangibles (as such terms are defined in the EXIM Loan Agreement) is subject to and subordinate to the security interest granted to Bank in the EXIM Loan Agreement with respect to such Export-Related Accounts Receivable, Export-Related Inventory and Export-Related General Intangibles.”
- 6 The Loan Agreement shall be amended by deleting the following text appearing as Sections 6.2 (a), (b), (c), (d) and (e) thereof:
- “(a) a Transaction Report (and any schedules related thereto) (y) weekly and at the time of each request for an Advance if a Streamline Period is not in effect or an Event of Default has occurred and is continuing and (z) within fifteen (15) days after the end of each month if a Streamline Period is in effect and no Event of Default has occurred and is continuing;
- (b) within fifteen (15) days after the end of each month, (A) monthly accounts receivable agings (including, without limitation, accounts receivable agings for accounts receivable used in determining EXIM Loans), aged by invoice date, (B) monthly accounts payable agings, aged by invoice date, and outstanding or held check registers, if any, (C) monthly reconciliations of accounts receivable agings (aged by invoice date), transaction reports and general ledger, and (D) monthly perpetual inventory reports for Inventory valued on a first-in, first-out basis at the lower of cost or market (in accordance with GAAP) or such other inventory reports as are requested by Bank in its good faith business judgment;
- (c) as soon as available, but no later than thirty (30) days after the last day of each month, a company prepared consolidated and consolidating balance sheet and income statement covering Borrower’s and each of its Subsidiary’s operations for such month certified by a Responsible Officer and in a form acceptable to Bank (the “**Monthly Financial Statements**”);
- (d) within thirty (30) days after the last day of each month and together with the Monthly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month Borrower was in full compliance with all of the terms and conditions of this Agreement (subject to any existing Defaults or Events of Default, which Borrower shall describe in the Compliance Certificate), and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Bank shall reasonably request, including, without limitation, a statement that at the end of such month there were no held checks;
- (e) within fifteen (15) days after the end of each fiscal quarter of the Borrower, (i) copies of actual invoices of at least ten percent (10%) of the quarter-end accounts receivable aging balance; and (ii) copies of at least ten percent (10%) of the previous quarter’s export orders (if any);”

and inserting in lieu thereof the following:

“(a) a Transaction Report (and any schedules related thereto) (x) weekly and at the time of each request for an Advance if a Streamline Period is not in effect or an Event of Default has occurred and is continuing; (y) within fifteen (15) days after the end of each month if a Streamline Period is in effect and no Event of Default has occurred and is continuing; and (z) quarterly, within thirty (30) days after the end of each quarter if there were no outstanding Advances under the Revolving Line at any time during such quarter;

(b) within fifteen (15) days after the end of each month (within thirty (30) days after the end of each quarter if there were no outstanding Advances under the Revolving Line at any time during such quarter), (A) monthly accounts receivable agings, aged by invoice date, (B) monthly accounts payable agings, aged by invoice date, and outstanding or held check registers, if any, (C) monthly reconciliations of accounts receivable agings (aged by invoice date), transaction reports and general ledger, and (D) monthly perpetual inventory reports for Inventory valued on a first-in, first-out basis at the lower of cost or market (in accordance with GAAP) or such other inventory reports as are requested by Bank in its good faith business judgment;

(c) as soon as available, but no later than thirty (30) days after the last day of each month (or within thirty (30) days after the end of each quarter if there were no outstanding Advances under the Revolving Line at any time during such quarter), a company prepared consolidated and consolidating balance sheet and income statement covering Borrower’s and each of its Subsidiary’s operations for such time period certified by a Responsible Officer and in a form acceptable to Bank (the “**Borrower Financial Statements**”);

(d) within thirty (30) days after the last day of each month (or within thirty (30) days after the end of each quarter if there were no outstanding Advances under the Revolving Line at any time during such quarter) and together with the Borrower Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month or quarter, as applicable, Borrower was in full compliance with all of the terms and conditions of this Agreement (subject to any existing Defaults or Events of Default, which Borrower shall describe in the Compliance Certificate), and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Bank shall reasonably request, including, without limitation, a statement that at the end of such month there were no held checks;

(e) [Intentionally omitted];”

7 The Loan Agreement shall be amended by deleting the following text appearing as Section 6.9(a) thereof:

“(a) Minimum Liquidity Ratio. A Liquidity Ratio of at least 2.00 to 1.00 at all times, it being understood that Quarter-end Advances shall be excluded from the foregoing calculation; provided, however, that the foregoing Liquidity Ratio covenant will no longer be tested for any period commencing on the date that Borrower provides Bank evidence satisfactory to Bank, in its reasonable discretion, that Borrower has achieved a Fixed Charge Coverage Ratio, measured on a trailing twelve month basis, as of the last day of each of the immediately preceding four consecutive fiscal quarters of greater than 1.50:1.00 (the “**FCCR Triggering Event**”).”

and inserting in lieu thereof the following:

“(a) Minimum Liquidity Ratio. A Liquidity Ratio of at least 2.00 to 1.00 at all times, it being understood that Quarter-end Advances shall be excluded from the foregoing calculation; provided, that for any quarterly period in which there are no outstanding Advances under the Revolving Line at any time during such quarter, the Liquidity Ratio financial covenant hereunder shall only be tested as of the last day of such quarter;

provided, further, that the foregoing Liquidity Ratio covenant will no longer be tested for any period commencing on the date that Borrower provides Bank evidence satisfactory to Bank, in its reasonable discretion, that Borrower has achieved a Fixed Charge Coverage Ratio, measured on a trailing twelve month basis, as of the last day of each of the immediately preceding four consecutive fiscal quarters of greater than 1.50:1.00 (the “**FCCR Triggering Event**”).”

8 The Loan Agreement shall be amended by deleting the following text appearing as Section 6.9(b) thereof:

“(b) Maximum Capital Expenditures. Not contract for, purchase or make any expenditure or commitments for Capital Expenditures in an aggregate amount in excess of Four Million Dollars (\$4,000,000) for Borrower’s fiscal year ending December 31, 2012, and an amount for each of Borrower’s fiscal years ending thereafter as Borrower and Bank shall agree; provided that if Borrower and Bank fail to agree on the amount with respect to any such year, such amount shall be deemed to be Four Million Dollars (\$4,000,000) for such year; provided, further, that for each fiscal year, any Capital Expenditure amount not used by the last day of the respective fiscal year shall be added to the permitted Capital Expenditure amount for the next succeeding fiscal year.”

and inserting in lieu thereof the following:

“(b) [Intentionally omitted.]”

9 The Loan Agreement shall be amended by deleting the following text appearing as Section 6.9(d) thereof:

“(d) Minimum EBITDA. For any monthly period commencing March 1, 2013 through and including December 31, 2013 in which Borrower fails to maintain unrestricted cash and Cash Equivalents at Bank in an amount equal to or greater than Twenty Million Dollars (\$20,000,000) for each day in such monthly period, Borrower shall achieve, measured as of the end of each month, for the trailing six-month period ending as of the end of such month, EBITDA no worse than negative Four Million Dollars (\$4,000,000). Financial covenant levels for the fiscal year commencing January 1, 2014 shall be mutually determined by Borrower and Bank based on the Borrower’s annual forecast for such fiscal year.”

and inserting in lieu thereof the following:

“(d) Minimum EBITDA. For any monthly period commencing March 1, 2014 through and including December 31, 2014 in which Borrower fails to maintain unrestricted cash and Cash Equivalents at Bank in an amount equal to or greater than Twenty Million Dollars (\$20,000,000) for each day in such monthly period, Borrower shall achieve, measured as of the end of each month, for the trailing six-month period ending as of the end of such month, EBITDA no worse than negative Seven Million Dollars (\$7,000,000). Financial covenant levels for the fiscal year commencing January 1, 2015 shall be mutually determined by Borrower and Bank based on the Borrower’s annual forecast for such fiscal year.”

10 The Loan Agreement shall be amended by deleting the following text appearing as Section 8.1 thereof:

“**8.1 Payment Default**. Borrower fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3)

Business Day cure period shall not apply to payments due on the Revolving Line Maturity Date and/or the Term Loan 2011 Maturity Date, as applicable). During the cure period, the failure to make or pay any payment specified under clause (a) or (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);”

and inserting in lieu thereof the following:

“**8.1 Payment Default.** Borrower fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Revolving Line Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (a) or (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);”

- 11 The Loan Agreement shall be amended by deleting the following text appearing as Section 8.10 thereof:

“**8.10 Exim Default.** After the effective date of the EXIM Loan Agreement, the occurrence of an Event of Default under the EXIM Agreement.”

and inserting in lieu thereof the following:

“**8.10 [Intentionally Omitted.]**”

- 12 The Loan Agreement shall be amended by deleting the following text appearing in Section 10 thereof:

“If to Borrower       AtriCure, Inc.  
6217 Centre Park Drive  
West Chester, Ohio 45069  
Attn: Julie A. Piton  
Fax: (513) 644-1315  
Email: [jpiton@atricure.com](mailto:jpiton@atricure.com)

If to Bank:           Silicon Valley Bank  
380 Interlocken Crescent, Suite 600  
Broomfield, Colorado 80021  
Attn: Adam Glick  
Fax: (303) 469-9088  
Email: [aglick@svb.com](mailto:aglick@svb.com)

“and inserting in lieu thereof the following:

“If to Borrower       AtriCure, Inc.  
6217 Centre Park Drive  
West Chester, Ohio 45069  
Attn: M. Andrew Wade  
Fax: (513) 644-1315  
Email: [awade@atricure.com](mailto:awade@atricure.com)

If to Bank:           Silicon Valley Bank  
380 Interlocken Crescent, Suite 600  
Broomfield, Colorado 80021  
Attn: Tom Hertzberg  
Fax: (303) 469-9088  
Email: [thertzberg@svb.com](mailto:thertzberg@svb.com)”

13 The Loan Agreement shall be amended by deleting the following text appearing as Section 12.1 thereof:

**“12.1 Termination Prior to Maturity Date.** This Agreement may be terminated prior to the Revolving Line Maturity Date by Borrower, effective three (3) Business Days after written notice of termination is given to Bank or if Bank’s obligation to fund Credit Extensions terminates pursuant to the terms of Section 2.1.1(c). Notwithstanding any such termination, Bank’s lien and security interest in the Collateral shall continue until terminated in accordance with this Section 12.1. If such termination is at Borrower’s election or at Bank’s election due to the occurrence and continuance of an Event of Default or if any of the Obligations become due and payable as a result of an Event of Default (including without limitation becoming due and payable as a result of an Insolvency Proceeding), Borrower shall pay to Bank, in addition to the payment of any other expenses or fees then-owing, a termination fee in an amount equal to (i) two percent (2.00%) of the Revolving Line (i.e. Two Hundred Thousand Dollars (\$200,000)) if termination occurs after First Loan Modification Effective Date but on or before the first anniversary of the First Loan Modification Effective Date; and (ii) one percent (1.00%) of the Revolving Line (i.e. One Hundred Thousand Dollars (\$100,000)) if termination occurs after the first anniversary of the First Loan Modification Effective Date but on or before the second anniversary of the First Loan Modification Effective Date; provided that no termination fee shall be charged if the credit facility hereunder is replaced with a new facility from another division of the Bank. Upon payment in full of the Obligations which are then due and payable and at such time as Bank’s obligation to make Credit Extensions has terminated, Bank shall release its liens and security interests in the Collateral and all rights therein shall revert to Borrower.”

and inserting in lieu thereof the following:

**“12.1 Termination Prior to Maturity Date.** This Agreement may be terminated prior to the Revolving Line Maturity Date by Borrower, effective three (3) Business Days after written notice of termination is given to Bank or if Bank’s obligation to fund Credit Extensions terminates pursuant to the terms of Section 2.1.1(c). Notwithstanding any such termination, Bank’s lien and security interest in the Collateral shall continue until terminated in accordance with this Section 12.1. If such termination is at Borrower’s election or at Bank’s election due to the occurrence and continuance of an Event of Default or if any of the Obligations become due and payable as a result of an Event of Default (including without limitation becoming due and payable as a result of an Insolvency Proceeding), Borrower shall pay to Bank, in addition to the payment of any other expenses or fees then-owing, a termination fee in an amount equal to one percent (1.00%) of the Revolving Line (i.e. One Hundred Fifty Thousand Dollars (\$150,000)); provided that no termination fee shall be charged if the credit facility hereunder is replaced with a new facility from another division of the Bank. Upon payment in full of the Obligations which are then due and payable and at such time as Bank’s obligation to make Credit Extensions has terminated, Bank shall release its liens and security interests in the Collateral and all rights therein shall revert to Borrower.”

14 The Loan Agreement shall be amended by deleting the following text appearing as Section 12.18 thereof:

**“12.18 Borrower Agreement; Cross-Collateralization; Cross-Default; Conflicts.** Both this Agreement and the Borrower Agreement shall continue in full force and effect, and all rights and remedies under this Agreement and the Borrower Agreement are cumulative. The term “Obligations” as used in this Agreement and in the Borrower

Agreement shall include without limitation the obligation to pay when due all loans made pursuant to the Borrower Agreement (the “**Exim Loans**”) and all interest thereon and the obligation to pay when due all Advances made pursuant to the terms of this Agreement and all interest thereon. Without limiting the generality of the foregoing, the security interest granted herein covering all “Collateral” as defined in this Agreement and as defined in the Borrower Agreement shall secure all Exim Loans and all Advances and all interest thereon, and all other Obligations. Any Event of Default under this Agreement shall also constitute a default under the Borrower Agreement, and any default under the Borrower Agreement shall also constitute an Event of Default under this Agreement. In the event Bank assigns its rights under this Agreement and/or under any note evidencing Exim Loans and/or its rights under the Borrower Agreement and/or under any note evidencing Advances, to any third party, including, without limitation, the Exim Bank, whether before or after the occurrence of any Event of Default, Bank shall have the right (but not any obligation), in its sole discretion, to allocate and apportion Collateral to the Borrower Agreement and/or note assigned and to specify the priorities of the respective security interests in such Collateral between itself and the assignee, all without notice to or consent of the Borrower.”

and inserting in lieu thereof the following:

“**12.18 Borrower Liability.** Any Borrower may, acting singly, request Advances hereunder. Each Borrower hereby appoints the other as agent for the other for all purposes hereunder, including with respect to requesting Advances hereunder. Each Borrower hereunder shall be jointly and severally obligated to repay all Advances made hereunder, regardless of which Borrower actually receives said Advance, as if each Borrower hereunder directly received all Advances. Each Borrower waives (a) any suretyship defenses available to it under the Code or any other applicable law, including, without limitation, the benefit of California Civil Code Section 2815 permitting revocation as to future transactions and the benefit of California Civil Code Sections 1432, 2809, 2810, 2819, 2839, 2845, 2847, 2848, 2849, 2850, and 2899 and 3433, and (b) any right to require Bank to: (i) proceed against any Borrower or any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Bank may exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Borrower’s liability. Notwithstanding any other provision of this Agreement or other related document, each Borrower irrevocably subordinates to the prior payment in full of the Obligations and the termination of the Bank’s commitment to make Credit Extensions to Borrower and agrees not to assert or enforce prior to payment in full of the Obligations and the termination of the Bank’s commitment to make Credit Extensions to Borrower all rights that it may have at law or in equity (including, without limitation, any law subrogating Borrower to the rights of Bank under this Agreement) to seek contribution, indemnification or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section shall be null and void. If any payment is made to a Borrower in contravention of this Section, such Borrower shall hold such payment in trust for Bank and such payment shall be promptly delivered to Bank for application to the Obligations, whether matured or unmatured.”

15 The Loan Agreement shall be amended by deleting the following definitions from Section 13.1 thereof:

“**Borrower Agreement**” is defined in Section 2.7 of the EXIM Loan Agreement.

“**EXIM Bank**” is the Export-Import Bank of the United States.

“**EXIM Guaranty**” is that certain EXIM Bank Working Capital Guaranty Program Master Guaranty Agreement, by and between Bank and EXIM Bank, dated as of November 1, 2005.

“**EXIM Loan Agreement**” is that certain Export-Import Bank Loan and Security Agreement, by and between Borrower and Bank, dated as of the date hereof.

“**EXIM Loan Documents**” is the EXIM Loan Agreement, together with related documents executed in conjunction therewith.

“**EXIM Loans**” is defined in Section 12.18.

“**First Tier Rate**” is defined in Section 2.3(a).

“**Make Whole Event Date**” shall mean (a) in the case of a voluntary Term Loan 2012 prepayment, the date of such prepayment, and (b) in the case of all or a portion of the Term Loan 2012 becoming due and payable according to the terms hereof because of the occurrence and continuance of an Event of Default, the date such amount of the Term Loan 2012 has become due and payable according to the terms hereof.

“**Make Whole Premium**” is an amount equal to 3% of the Term Loan 2012 Amount if the Make Whole Event Date occurs on or before the first anniversary of the Second Loan Modification Effective Date; 2% of the Term Loan 2012 Amount if the Make Whole Event Date occurs after the first anniversary of the Second Loan Modification Effective Date but on or before the second anniversary of the Second Loan Modification Effective Date; and 1% of Term Loan 2012 Amount if the Make Whole Event Date occurs after the second anniversary of the Second Loan Modification Effective Date but before the Term Loan 2012 Maturity Date.

“**Regular Rate**” is defined in Section 2.3(a).

“**Second Tier Rate**” is defined in Section 2.3(a).

“**Term Loan**” is a loan made by Bank pursuant to the terms of Section 2.1.5 hereof.

“**Term Loan Amount**” is an aggregate amount equal to Six Million Five Hundred Thousand Dollars (\$6,500,000) outstanding at any time.

“**Term Loan Maturity Date**” is defined in Section 2.1.5(a).

“**Term Loan Payment**” is defined in Section 2.1.5(a).

“**Term Loan 2011**” is a loan made by Bank pursuant to the terms of Section 2.1.6 hereof.

“**Term Loan 2011 Amount**” is an aggregate amount equal to Seven Million Five Hundred Thousand Dollars (\$7,500,000) outstanding at any time.

“**Term Loan 2011 Maturity Date**” is March 15, 2016.

“**Term Loan 2011 Payment**” is defined in Section 2.1.6(c).

“**Term Loan 2012**” is a loan made by Bank pursuant to the terms of Section 2.1.7 hereof.

“**Term Loan 2012 Amount**” is an aggregate amount equal to Ten Million Dollars (\$10,000,000) outstanding at any time.

“**Term Loan 2012 Maturity Date**” is February 1, 2017.

“**Term Loan 2012 Payment**” is defined in Section 2.1.7(c).



16 The Loan Agreement shall be amended by deleting the following definitions appearing in Section 13.1 thereof:

“**Availability Amount**” is (a) the lesser of (i) the Revolving Line or (ii) the amount available under the Borrowing Base minus without duplication (b) the outstanding principal balance of any Advances. The aggregate amount of all Advances under this Agreement outstanding at any time together with all Credit Extensions made pursuant to the EXIM Loan Agreement outstanding at any time shall not exceed Ten Million Dollars (\$10,000,000).

“**Borrowing Base**” is (a) eighty percent (80%) of Eligible Accounts plus (b) the lesser of forty percent (40%) of the value of Borrower’s Eligible Inventory (valued at the lower of cost or wholesale fair market value) or Two Million Dollars (\$2,000,000), as determined by Bank from Borrower’s most recent Borrowing Base Certificate; provided, however, that Bank may decrease the foregoing amount and/or percentages in its good faith business judgment based on events, conditions, contingencies, or risks which, as determined by Bank, may adversely affect the Collateral.

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc., (c) Bank’s certificates of deposit issued maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

“**Credit Extension**” is any Advance, Letter of Credit, EXIM Loan, Term Loan 2012, foreign exchange contract, amount utilized for cash management services with the Bank, or any other extension of credit by Bank for Borrower’s benefit.

“**IP Agreement**” is that certain Intellectual Property Security Agreement executed and delivered by Borrower to Bank dated as of May 1, 2009, as amended from time to time.

“**Liquidity Ratio**” is the ratio of (a) Borrower’s unrestricted cash and unrestricted Cash Equivalents, each only to the extent held at Bank and Bank’s Affiliates plus Borrower’s Eligible Accounts plus, without duplication, Borrower’s Eligible EXIM Accounts (as defined in the EXIM Loan Agreement), divided by (b) all Indebtedness of Borrower owed to Bank (exclusive of (i) the undrawn portion of the Revolving Line and (ii) any Quarter-end Advances), including, without limitation or duplication, the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit) (for purposes of clarity, the parties acknowledge that Borrower’s cash or Cash Equivalents shall not be considered to be restricted by reason of the fact that they are subject to Bank’s Lien).

“**Loan Documents**” are, collectively, this Agreement, the EXIM Loan Agreement, the Borrower Agreement, the Perfection Certificate, the IP Agreement, any Bank Services Agreement, any Subordination Agreement, any Guaranty, any Guarantor Security Agreement, the Dutch Security Documents, any note, or notes or other guaranties executed by Borrower, and any other present or future agreement between Borrower and/or for the benefit of Bank in connection with this Agreement and/or Bank Services, all as amended, restated, or otherwise modified.

“**Revolving Line**” is an Advance or Advances in an amount not to exceed Ten Million Dollars (\$10,000,000).

“**Revolving Line Maturity Date**” is April 30, 2014.

“**Streamline Requirements**” are, as of any date, all of the following: (i) no Default or Event of Default exists; and (ii) Borrower has an aggregate of unrestricted cash and Cash Equivalents held at Bank and Bank’s Affiliates of greater than the sum of (a) the outstanding principal amount of any Advances (excluding any outstanding Quarter-end Advances) plus (b) the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit), plus (c) the amount outstanding under the Term Loan 2012.

and inserting in lieu thereof the following:

“**Availability Amount**” is (a) the lesser of (i) the Revolving Line or (ii) the amount available under the Borrowing Base minus without duplication (b) the outstanding principal balance of any Advances.

“**Borrowing Base**” is (a) eighty percent (80%) of Eligible Accounts plus (b) the lesser of eighty-five percent (85%) of Eligible Foreign Accounts or Three Million Five Hundred Thousand Dollars (\$3,500,000) plus (c) the lesser of fifty percent (50%) of the value of Borrower’s Eligible Inventory (valued at the lower of cost or wholesale fair market value) or Four Million Dollars (\$4,000,000), as determined by Bank from Borrower’s most recent Borrowing Base Certificate; provided, however, that Bank may decrease the foregoing amount and/or percentages in its good faith business judgment based on events, conditions, contingencies, or risks which, as determined by Bank, may adversely affect the Collateral.

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than two (2) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having a minimum credit rating of A-1 by Standard & Poor’s Ratings Group or P-1 by Moody’s Investors Service, Inc., (c) Bank’s certificates of deposit issued maturing no more than two (2) years from the date of acquisition; (d) corporate bonds and medium term notes maturing within two (2) years from the date of acquisition and having a minimum credit quality of A by Standard & Poor’s Ratings Group or A2 by Moody’s Investors Service, Inc.; and (e) money market funds registered according to SEC Rule 2a-7.

“**Credit Extension**” is any Advance, Letter of Credit, foreign exchange contract, amount utilized for cash management services with the Bank, or any other extension of credit by Bank for Borrower’s benefit.

“**IP Agreement**” is that certain Amended and Restated Joint Intellectual Property Security Agreement executed and delivered by Borrower to Bank dated as of the Seventh Loan Modification Effective Date, as amended from time to time, together with any other agreement executed by any Person from time to time pursuant to which such Person pledges such Person’s ownership rights in such Persons Intellectual Property as security for the Obligations.

“**Liquidity Ratio**” is the ratio of (a) Borrower’s unrestricted cash and unrestricted Cash Equivalents, each only to the extent held at Bank and Bank’s Affiliates plus Borrower’s Eligible Accounts plus, without duplication, Borrower’s Eligible Foreign Accounts, divided by (b) all Indebtedness of Borrower owed to Bank (exclusive of (i) the undrawn

portion of the Revolving Line and (ii) any Quarter-end Advances), including, without limitation or duplication, the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit) (for purposes of clarity, the parties acknowledge that Borrower's cash or Cash Equivalents shall not be considered to be restricted by reason of the fact that they are subject to Bank's Lien).

**"Loan Documents"** are, collectively, this Agreement, the Perfection Certificate, any IP Agreement, any Bank Services Agreement, any Subordination Agreement, any Guaranty, any Guarantor Security Agreement, the Dutch Security Documents, any note, or notes or other guaranties executed by Borrower, and any other present or future agreement between Borrower and/or for the benefit of Bank in connection with this Agreement and/or Bank Services, all as amended, restated, or otherwise modified.

**"Revolving Line"** is an Advance or Advances in an amount not to exceed Fifteen Million Dollars (\$15,000,000).

**"Revolving Line Maturity Date"** is April 30, 2016.

**"Streamline Requirements"** are, as of any date, all of the following: (i) no Default or Event of Default exists; and (ii) Borrower has an aggregate of unrestricted cash and Cash Equivalents held at Bank and Bank's Affiliates of greater than the sum of (a) the outstanding principal amount of any Advances (excluding any outstanding Quarter-end Advances) plus (b) the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit).

- 17 The Loan Agreement shall be amended by deleting the following clause (h) appearing in the definition of "Permitted Indebtedness" in Section 13.1 thereof:

"(h) Indebtedness under hedging obligations with respect to interest rates, foreign currency exchange rates or commodity prices, in each case not entered into for speculative purposes, and in an aggregate notational value at any time outstanding not exceeding an amount equal to fifty percent (50%) of the then outstanding principal balance of the Term Loan 2012;"

and inserting in lieu thereof the following:

"(h) [Intentionally omitted];"

- 18 The Loan Agreement shall be amended by deleting the following text appearing as clause (a) appearing in the definition of "Permitted Liens" in Section 13.1 thereof:

"(a) Liens existing on the Effective Date and shown on the Perfection Certificate or arising under this Agreement and the other Loan Documents, including Liens in favor of the Export-Import Bank of the United States arising under the Borrower Agreement;"

and inserting in lieu thereof the following:

"(a) Liens existing on the Seventh Loan Modification Effective Date and shown on the Perfection Certificate or arising under this Agreement and the other Loan Documents;"

19 The Loan Agreement shall be amended by inserting the following new definitions in Section 13.1 thereof, each in its applicable alphabetical order:

“**Country Limitation Schedule**” is that certain schedule of the Export-Import Bank of the United States listed on <http://www.exim.gov/tools/countrylimitationschedule> as amended from time to time, or, if unavailable, such other guidance issued by the Export-Import Bank of the United States with respect to countries prohibited from doing business with the United States of America.

“**Eligible Foreign Accounts**” are of Borrower that are billed and/or payable outside the United States for which for which support is available based on the Export-Import Bank of the United States’ most recent Country Limitation Schedule.

“**Seventh Loan Modification Effective Date**” is April 30, 2014.

20 The Loan Agreement shall be amended by deleting Exhibit B attached thereto and inserting Exhibit B attached hereto in lieu thereof:

8. **CONDITIONS PRECEDENT.** As a condition precedent to the effectiveness of this Loan Modification Agreement and the Bank’s obligation to make further Advances under the Revolving Line, the Bank shall have received the following documents prior to or concurrently with this Loan Modification Agreement, each in form and substance satisfactory to the Bank:

- A. this Loan Modification Agreement duly executed on behalf of each Borrower (including, without limitation, New Borrower) and signed by way of acknowledgement by Guarantor;
- B. Bank shall have received copies, certified by a duly authorized officer of each Borrower (including, without limitation, New Borrower), to be true and complete as of the date hereof, of each of (i) the governing documents of each Borrower (including, without limitation, New Borrower) as in effect on the date hereof, (ii) the resolutions of each Borrower (including, without limitation, New Borrower) authorizing the execution and delivery of this Loan Modification Agreement, the other documents executed in connection herewith and each Borrower’s performance of all of the transactions contemplated hereby, and (iii) an incumbency certificate giving the name and bearing a specimen signature of each individual who shall be so authorized on behalf of each Borrower (including, without limitation, New Borrower);
- C. a good standing certificate of each Borrower (including, without limitation, New Borrower), certified by the Secretary of State of the state of incorporation of each respective Borrower (including, without limitation, New Borrower), together with a certificate of foreign qualification from the Secretary of State (or comparable governmental entity) of each state in which each Borrower (including, without limitation, New Borrower) is qualified to transact business as a foreign entity, if any, in each case dated as of a date no earlier than thirty (30) days prior to the date hereof;
- D. certified copies, dated as of a recent date, of financing statement and other lien searches of each Borrower (including, without limitation, New Borrower), as Bank may request and which shall be obtained by Bank, accompanied by written evidence (including any UCC termination statements) that the Liens revealed in any such searched either (i) will be terminated prior to or in connection with the Loan Modification Agreement, or (ii) in the sole discretion of Bank, will constitute Permitted Liens;
- E. a filed copy, which shall be filed by Bank, acknowledged by the appropriate filing office in the State of Delaware, of a UCC Financing Statement, naming New Borrower as “Debtor” and Bank as “Secured Party”;

- F. a completed consolidated Perfection Certificate executed by Borrower, together with the duly executed original signatures thereto and all required attachments thereto;
- G. an Amended and Restated Joint Intellectual Property Security Agreement, executed by Borrower, with completed exhibits thereto, together with Intellectual Property search results acceptable to Bank, in its reasonable discretion;
- H. evidence satisfactory to Bank that the insurance policies required for New Borrower are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses or endorsements in favor of Bank; and
- I. such other documents as Bank may reasonably request.

9. **BORROWING BASE RESTRICTIONS.** Until the Collateral of New Borrower is subject only to the first-priority Lien in favor of Bank and is not subject to any other Lien (other than Permitted Liens), the Accounts of Account Debtor's of New Borrower will not be considered "Eligible Accounts" and none will be included in any Borrowing Base Certificate submitted by Borrower.

10. **FEES.** Borrower shall pay to Bank a modification fee equal to Fifty Thousand Dollars (\$50,000.00), which fee shall be due on the date hereof and shall be deemed fully earned and non-refundable as of the date hereof. In addition, Borrower shall pay to Bank an anniversary fee equal to Fifty Thousand Dollars (\$50,000) on or before the date that is 365 days after the Seventh Loan Modification Effective Date. Borrower shall also reimburse Bank for all reasonable legal fees and expenses incurred in connection with this amendment to the Existing Loan Documents.

11. **AUTHORIZATION TO FILE.** Borrower hereby authorizes Bank to file UCC financing statements without notice to Borrower, with all appropriate jurisdictions, as Bank deems appropriate, in order to further perfect or protect Bank's interest in the Collateral, including a notice that any disposition of the Collateral, by either the Borrower or any other Person, shall be deemed to violate the rights of the Bank under the Code.

12. **CONSISTENT CHANGES.** The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

13. **RATIFICATION OF LOAN DOCUMENTS.** Other than as expressly altered by this Loan Modification Agreement and the updated IP Agreement, Borrower hereby ratifies, confirms, and reaffirms all terms and conditions of the Loan Documents and all security or other collateral granted to the Bank, and confirms that the indebtedness secured thereby includes, without limitation, the Obligations.

14. **NO DEFENSES OF BORROWER.** Borrower hereby acknowledges and agrees that Borrower has no offsets, defenses, claims, or counterclaims against Bank with respect to the Obligations, or otherwise, and that if Borrower now has, or ever did have, any offsets, defenses, claims, or counterclaims against Bank, whether known or unknown, at law or in equity, all of them are hereby expressly WAIVED and Borrower hereby RELEASES Bank from any liability thereunder.

15. **CONTINUING VALIDITY.** Borrower understands and agrees that in modifying the existing Obligations, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank's agreement to modifications to the existing Obligations pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Obligations. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Obligations. It is the intention of Bank and Borrower to retain as liable parties all makers of Existing Loan Documents, unless the party is expressly released by Bank in writing. No maker will be released by virtue of this Loan Modification Agreement.

16. **RIGHT OF SET-OFF.** In consideration of Bank's agreement to enter into this Loan Modification Agreement, Borrower hereby reaffirms and hereby grants to Bank, a lien, security interest and right of set off as security for all Obligations to Bank, whether now existing or hereafter arising upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity

under the control of Silicon Valley Bank (including a Bank subsidiary) or in transit to any of them. At any time after the occurrence and during the continuance of an Event of Default, without demand or notice, Bank may set off the same or any part thereof and apply the same to any liability or obligation of Borrower even though unmaturing and regardless of the adequacy of any other collateral securing the loan. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

17. CONFIDENTIALITY. Without limiting Section 12.10 of the Loan Agreement (which is and shall remain in full force and effect), Bank may use confidential information for the development of databases, reporting purposes, and market analysis, so long as such confidential information is aggregated and anonymized prior to distribution unless otherwise expressly permitted by Borrower. The provisions of the immediately preceding sentence shall survive the termination of the Loan Agreement.

18. JURISDICTION/VENUE. California law governs the Loan Documents, including, without limitation, this Loan Modification Agreement without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of the Loan Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

**TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS LOAN MODIFICATION AGREEMENT, THE LOAN AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.**

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may

enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

19. COUNTERSIGNATURE. This Loan Modification Agreement shall become effective only when it shall have been executed by Borrower and Bank.

*[The remainder of this page is intentionally left blank]*

**BORROWER:**

**ATRICURE, INC.**

By: /s/ M. Andrew Wade  
Name: M. Andrew Wade  
Title: Chief Financial Officer

**ATRICURE, LLC**

By: /s/ M. Andrew Wade  
Name: M. Andrew Wade  
Title: Chief Financial Officer

**ENDOSCOPIC TECHNOLOGIES, LLC**

By: /s/ M. Andrew Wade  
Name: M. Andrew Wade  
Title: Chief Financial Officer

The undersigned, \_\_\_\_\_ of **ATRICURE EUROPE, B.V.**, a company organized under the laws of The Netherlands and a wholly owned Subsidiary of Borrower, ratifies, confirms and reaffirms, all and singular, the terms and conditions of (i) a certain Unconditional Guaranty dated as of September 26, 2012 (the "**Guaranty**") and (ii) a certain Guarantor Security Agreement, dated as of September 26, 2012 (the "**Guarantor Security Agreement**"), and acknowledges, confirms and agrees that the Guaranty and the Guarantor Security Agreement shall remain in full force and effect and shall in no way be limited by the execution of this Loan Modification Agreement, or any other documents, instruments and/or agreements executed and/or delivered in connection herewith.

**BANK:**

**SILICON VALLEY BANK**

By: /s/ Tom Hertzberg  
Name: Tom Hertzberg  
Title: Vice President II

**ATRICURE EUROPE, B.V.**

By /s/ M. Andrew Wade  
Name: M. Andrew Wade  
Title: Director



**EXHIBIT A**

Collateral Description

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles, commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

all Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include more than sixty-five percent (65%) of the presently existing and hereafter arising issued and outstanding shares of capital stock owned by Borrower of any Foreign Subsidiary which shares entitle the holder thereof to vote for directors or any other matter.

**EXHIBIT B**

**COMPLIANCE CERTIFICATE**

TO: SILICON VALLEY BANK  
 FROM: ATRICURE, INC.  
 ATRICURE, LLC  
 ENDOSCOPIC TECHNOLOGIES, LLC

Date: \_\_\_\_\_

The undersigned authorized officer of Atricare, Inc. (“**Borrower**”) certifies for itself and each other Borrower that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (as amended, the “**Agreement**”):

(1) Borrower is in complete compliance for the period ending \_\_\_\_\_ with all required covenants except as noted below; (2) there are no Events of Default; (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement; and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank.

Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

**Please indicate compliance status by circling Yes/No under “Complies” column.**

<u>Reporting Covenant</u>	<u>Required</u>	<u>Complies</u>
Transaction Reports	Non-Streamline: Weekly; Streamline: monthly within 15 days; quarterly within 30 days if no outstanding Advances	Yes No
Monthly payable & receivable items, check registers, general ledger, & reconciliations	Monthly within 15 days or quarterly within 30 days if no outstanding Advances	Yes No
Borrower financial statements with Compliance Certificate	Monthly within 30 days or quarterly within 30 days if no outstanding Advances	Yes No
Annual financial statement (CPA Audited)	FYE within 120 days	Yes No
Annual budgets and projections	30 days after FYE	Yes No

**Financial Covenants**

	<u>Required</u>	<u>Actual</u>	<u>Complies</u>	
Maintain as indicated				
Minimum Liquidity Ratio (when required; monthly – quarterly if no outstanding Advances)	2.00:1.00	_____:1.00	Yes	No
Minimum Fixed Charge Coverage Ratio (when required)	1.50:1.00	_____:1.00	Yes	No
Minimum EBITDA (no worse than) (when required)	(\$7,000,000)	\$_____	Yes	No

\* See Loan Agreement

	<u>Performance Pricing/ Streamline Period</u>		
Streamline Requirement Met?	See Loan Agreement	Yes	No

\_\_\_\_\_ Yes, interest rate on Advances equal to the Prime Rate

\_\_\_\_\_ No, interest rate on Advances equal to the Prime Rate plus one and one-quarter percent (1.25%)

Borrower is party to, or bound by, the following material Restricted Licenses that were not previously noted in the Perfection Certificate or a prior Compliance Certificate:

Borrower intends to register the following copyrights or mask works with the United States Copyright Office that were not previously noted in a prior Compliance Certificate:

Borrower has (i) obtained the following Patents, registered Trademarks, registered Copyrights, registered mask work, or any pending application for any of the foregoing, whether as owner, licensee or otherwise, and (ii) applied for the following Patents and the registration of the following Trademarks; in each case, that were not previously noted in the Perfection Certificate or a prior Compliance Certificate (to be reported on as part of the Compliance Certificate due following the last month of each fiscal quarter):

The following financial covenant analyses and information set forth in Schedule 1 attached hereto are true and accurate as of the date of this Certificate.

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

ATRICURE, INC.  
ATRICURE, LLC  
ENDOSCOPIC TECHNOLOGIES, LLC

**BANK USE ONLY**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Received by: \_\_\_\_\_  
AUTHORIZED SIGNER  
Date: \_\_\_\_\_

Verified: \_\_\_\_\_  
AUTHORIZED SIGNER  
Date: \_\_\_\_\_

Compliance Status:      Yes      No

**Schedule 1 to Compliance Certificate**

**Financial Covenants of Borrower**

In the event of a conflict between this Schedule and the Loan Agreement, the terms of the Loan Agreement shall govern.

Dated:

**I. Minimum Liquidity Ratio** (Section 6.9(a))

Required: Maintain a minimum Liquidity Ratio of at least 2.00 to 1.00 at all times, it being understood that Quarter-end Advances shall be excluded from the foregoing calculation; provided, that for any quarterly period in which there are no outstanding Advances under the Revolving Line at any time during such quarter, the Liquidity Ratio financial covenant hereunder shall only be tested as of the last day of such quarter; provided, further, that the foregoing Liquidity Ratio covenant will no longer be tested for any period commencing on the date that Borrower provides Bank evidence satisfactory to Bank, in its reasonable discretion, that Borrower has achieved a Fixed Charge Coverage Ratio, measured on a trailing twelve month basis, as of the last day of each of the immediately preceding four consecutive fiscal quarters of greater than 1.50:1.00 (the "**FCCR Triggering Event**").

Actual:

- A. Borrower's unrestricted cash (and Cash Equivalents) held with Bank and its Affiliates \$ \_\_\_\_\_
- B. Borrower's Eligible Accounts and Eligible Foreign Accounts \$ \_\_\_\_\_
- C. Line A plus line B \$ \_\_\_\_\_
- D. All outstanding liabilities and obligations of Borrower owed to Bank, including, without limitation or duplication, the face amount of any outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit but excluding the undrawn portion of the Revolving Line and excluding any Quarter-End Advances) (for purposes of clarity, the parties acknowledge that Borrower's cash or Cash Equivalents shall not be considered to be restricted by reason of the fact that they are subject to Bank's Lien) \$ \_\_\_\_\_
- E. Liquidity Ratio (line C divided by line D) \_\_\_\_\_:1.00

Is line E greater than or equal to 2.00:1.00?

\_\_\_\_\_ No, not in compliance

\_\_\_\_\_ Yes, in compliance

**II. Minimum Fixed Charge Coverage Ratio (Section 6.9(c))**

Required: Achieve, measured on a trailing twelve month basis, as of the last day of each monthly period, a Fixed Charge Coverage Ratio of not less than 1.50:1.00; provided, however, that until the occurrence of the FCCR Triggering Event described in Section 6.9(a) above, the Fixed Charge Coverage Ratio shall be measured solely to determine whether the FCCR Triggering Event has occurred and shall not be deemed a covenant; provided further, that upon the occurrence of the FCCR Triggering Event, the Liquidity Ratio covenant contained in Section 6.9(a) shall no longer be tested and achievement of the Fixed Charge Coverage Ratio of not less than 1.50:1.00 (tested monthly, on a trailing twelve month basis as of the last day of each monthly period), shall thereafter be required.

Actual:

A. EBITDA (as defined in the Loan Agreement)	\$ _____
B. Cash income taxes paid	\$ _____
C. Unfinanced Capital Expenditures	\$ _____
D. Line A <u>minus</u> line B <u>minus</u> line C	\$ _____
E. Current portion of long term debt, other than DOJ Obligations to the extent included in the calculation of the current portion of long term debt	\$ _____
F. Interest Expense, other than Interest Expense on the DOJ Obligations, to the extent included in the calculation of Interest Expense	\$ _____
G. Line E <u>plus</u> line F	\$ _____
H. Fixed Charge Coverage Ratio (line D <u>divided by</u> line G)	_____:1.00

Is line H greater than or equal to 1.50:1.00?

\_\_\_\_\_ No, not in compliance

\_\_\_\_\_ Yes, in compliance

**III. Minimum EBITDA** (Section 6.9(d))

Required: For any monthly period commencing March 1, 2014 through and including December 31, 2014 in which Borrower fails to maintain unrestricted cash and Cash Equivalents at Bank in an amount equal to or greater than Twenty Million Dollars (\$20,000,000) for each day in such monthly period, Borrower shall achieve, measured as of the end of each month, for the trailing six-month period ending as of the end of such month, EBITDA no worse than negative Seven Million Dollars (\$7,000,000). Financial covenant levels for the fiscal year commencing January 1, 2015 shall be mutually determined by Borrower and Bank based on the Borrower's annual forecast for such fiscal year.

Actual:

A. EBITDA (as defined in the Loan Agreement) \$ \_\_\_\_\_

If unrestricted cash and Cash Equivalents at Bank was less than Twenty Million Dollars (\$20,000,000) on any day during the calendar month, is line A no worse than (\$7,000,000)?

\_\_\_\_\_ No, not in compliance

\_\_\_\_\_ Yes, in compliance

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO  
SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael H. Carrel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AtriCure, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2014

By: /s/ Michael H. Carrel  
Michael H. Carrel  
President and Chief Executive Officer  
(Principal Executive Officer)



**CERTIFICATION OF PRINCIPAL ACCOUNTING AND FINANCIAL OFFICER  
PURSUANT TO  
SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, M. Andrew Wade, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AtriCure, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2014

By: /s/ M. Andrew Wade  
M. Andrew Wade  
Vice President and Chief Financial Officer  
(Principal Accounting and Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of AtriCure, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael H. Carrel, President and Chief Executive Officer and Principal Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2014

By: /s/ Michael H. Carrel  
Michael H. Carrel  
President and Chief Executive Officer  
(Principal Executive Officer)

A signed original of this written statement or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to AtriCure, Inc. and will be retained by AtriCure, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the report or as a separate disclosure document.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of AtriCure, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Andrew Wade, Vice President and Chief Financial Officer and Principal Accounting and Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2014

By: /s/ M. Andrew Wade  
M. Andrew Wade  
Vice President and Chief Financial Officer  
(Principal Accounting and Financial Officer)

A signed original of this written statement or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to AtriCure, Inc. and will be retained by AtriCure, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the report or as a separate disclosure document.