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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 September 30, 2011

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	**34-1940305**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-Accelerated Filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

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

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

Class	Outstanding at October 31, 2011
Common Stock, $.001 par value	16,247,507

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ATRICURE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 3,431,513	$ 4,230,709
Short-term investments	11,787,336	8,340,028
Accounts receivable, less allowance for doubtful accounts of $32,081 and $8,764, respectively	8,852,834	9,480,064
Inventories, net	6,543,080	5,680,033
Other current assets	1,125,424	2,917,571
Total current assets	31,740,187	30,648,405
Property and equipment, net	2,110,916	2,723,227
Intangible assets	47,916	89,375
Other assets	221,506	254,707
Total Assets	$ 34,120,525	$ 33,715,714
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,830,721	$ 4,511,516
Accrued liabilities	3,606,051	6,330,405
Current maturities of long-term debt and capital lease obligations	1,534,754	2,193,356
Total current liabilities	9,971,526	13,035,277
Long-term debt and capital lease obligations	5,286,027	661,624
Other liabilities	2,770,838	3,282,883
Total Liabilities	18,028,391	16,979,784
Commitments and contingencies (Note 7)		
Stockholders' Equity:		
Common stock, $.001 par value, 90,000,000 shares authorized and 16,266,925 and 15,663,585 issued and outstanding, respectively	16,267	15,664
Additional paid-in capital	117,300,326	114,402,234
Accumulated other comprehensive (loss) income	(86,831)	79,625
Accumulated deficit	(101,137,628)	(97,761,593)
Total Stockholders' Equity	16,092,134	16,735,930
Total Liabilities and Stockholders' Equity	$ 34,120,525	$ 33,715,714

See accompanying notes to condensed consolidated financial statements.

ATRICURE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue	$ 15,222,068	$ 14,473,113	$ 47,638,712	$ 42,617,225
Cost of revenue	4,136,651	3,299,152	12,383,013	9,535,461
Gross profit	11,085,417	11,173,961	35,255,699	33,081,764
Operating expenses:				
Research and development expenses	3,069,174	2,937,043	8,892,397	8,017,414
Selling, general and administrative expenses	9,206,794	9,067,807	29,399,217	28,018,385
Total operating expenses	12,275,968	12,004,850	38,291,614	36,035,799
Loss from operations	(1,190,551)	(830,889)	(3,035,915)	(2,954,035)
Other income (expense):				
Interest expense	(170,223)	(199,978)	(651,033)	(677,859)
Interest income	4,775	5,222	13,427	18,157
Other	212,031	(2,221)	323,560	(189,667)
Loss before income tax expense (benefit)	(1,143,968)	(1,027,866)	(3,349,961)	(3,803,404)
Income tax (expense) benefit	(12,368)	(1,444)	(26,074)	237
Net loss	$ (1,156,336)	$ (1,029,310)	$ (3,376,035)	$ (3,803,167)
Basic and diluted net loss per share	$ (0.07)	$ (0.07)	$ (0.22)	$ (0.25)
Weighted average shares outstanding—basic and diluted	15,810,978	15,148,815	15,608,417	15,057,672

See accompanying notes to condensed consolidated financial statements.

ATRICURE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net loss	$ (3,376,035)	$ (3,803,167)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	2,249,391	2,144,105
Depreciation	1,450,990	1,594,296
Write-off of deferred financing costs and discount on long-term debt	153,101	—
Loss (gain) on disposal of equipment	50,699	(1,563)
Amortization of deferred financing costs	71,939	78,648
Amortization of discount on long-term debt	21,707	146,738
Amortization of intangible assets	41,459	181,403
Change in allowance for doubtful accounts	23,584	(20,509)
Changes in assets and liabilities:		
Accounts receivable	505,565	(1,559,264)
Inventories	(880,321)	(1,786,129)
Other current assets	(202,183)	762,289
Accounts payable	305,928	1,135,987
Accrued liabilities	(1,190,856)	(434,940)
Other non-current assets and non-current liabilities	(84,418)	(4,991)
Net cash used in operating activities	(859,450)	(1,567,097)
Cash flows from investing activities:		
Purchases of property and equipment	(851,984)	(1,534,687)
Purchases of available-for-sale securities	(12,602,233)	(7,263,213)
Maturities of available-for-sale securities	9,156,241	6,148,491
Net proceeds from the sale of equipment	89,476	—
Net cash used in investing activities	(4,208,500)	(2,649,409)
Cash flows from financing activities:		
Payments on debt and capital leases	(3,661,434)	(1,670,091)
Proceeds from debt borrowings	7,500,000	—
Payment of debt fees	(80,930)	(85,059)
Proceeds from issuance of common stock under employee stock purchase plan	345,852	225,084
Proceeds from stock option exercises	1,056,492	204,354
Shares repurchased for payment of taxes on stock awards	(735,505)	—
Net cash provided by (used in) financing activities	4,424,475	(1,325,712)
Effect of exchange rate changes on cash and cash equivalents	(155,721)	162,884
Net decrease in cash and cash equivalents	(799,196)	(5,379,334)
Cash and cash equivalents—beginning of period	4,230,709	8,905,425
Cash and cash equivalents—end of period	$ 3,431,513	$ 3,526,091
Supplemental cash flow information:		
Cash paid for interest	$ 289,677	$ 334,295
Cash paid for taxes	$ 25,480	$ 21,639
Non-cash investing and financing activities:		
Purchases of property and equipment in current liabilities	$ 69,803	$ 46,873
Assets acquired through capital lease	$ 26,655	$ —

See accompanying notes to condensed consolidated financial statements.

ATRICURE, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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 develops, manufactures and sells devices designed primarily for the surgical ablation of cardiac tissue and devices for the exclusion of the left atrial appendage. The Company sells its products to hospitals and medical centers in the United States and internationally. International sales were $3,464,429 and $2,918,664 during the three months ended September 30, 2011 and 2010, respectively, and $11,096,778 and $8,167,305 during the nine months ended September 30, 2011 and 2010, respectively.

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 applicable to interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("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, 2010 filed with the SEC.

Principles of Consolidation—The Condensed Consolidated Financial Statements include the accounts of the Company and AtriCure Europe, B.V., 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 in the accompanying Condensed Consolidated Financial Statements.

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 a separate component of stockholders' equity. The Company recognizes gains and losses when these securities are sold using the specific identification method.

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, installation, 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.

Revenue is primarily generated from the sale of the Company's surgical devices. The Company's surgical devices consist primarily of individual disposable handpieces and equipment generators. The Company's customers need the combination of the generator and the handpieces to have a functional system. The Company believes that the generator and handpiece are considered a single unit of accounting under ASC 605 because neither the generator nor handpiece have value to the customer on a standalone basis. Therefore, because the customer needs both the generator and handpiece to have a functional system, revenue is recognized upon the latter of delivery of the generator or the handpiece.

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.

Product revenue includes shipping and handling revenue of $155,477 and $159,872 for the three months ended September 30, 2011 and 2010, respectively, and $501,241 and $481,089 for the nine months ended September 30, 2011 and 2010, 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 and through AtriCure Europe, B.V. 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 reductions given to customers. The Company estimates such provision quarterly based primarily on a specific identification basis. Increases to the provision result in a reduction of revenue.

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.

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. A reserve for inventory is estimated and recorded 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 reviews inventory on hand at least quarterly and records provisions for excess and obsolete inventory based on several factors including current assessment of future product demand, anticipated release of new products into the market, historical experience and product expiration. 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 the estimates related to excess and obsolete inventory.

	September 30, 2011	December 31, 2010
Raw materials	$ 3,222,209	$2,583,030
Work in process	707,999	698,462
Finished goods	2,793,131	2,430,047
Reserve for obsolescence	(180,259)	(31,506)
Inventories, net	$ 6,543,080	$5,680,033

A business decision was made during the second quarter of 2011 to begin planning to discontinue the manufacturing of the Coolrail and Cryo1 devices. Expense of $250,000 and $27,000 for obsolete inventory was recorded as a result of this decision during the second quarter of 2011 and third quarter of 2011, respectively.

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. 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 $257,260 and $322,044 for the three months ended September 30, 2011 and 2010, respectively, and $1,014,841 and $967,557 for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011 and December 31, 2010, the net carrying amount of loaned equipment included in net property and equipment in the Condensed Consolidated Balance Sheets was $1,128,476 and $1,630,163, respectively.

Impairment of Long-Lived Assets—The Company reviews property and equipment and definite-lived intangibles for impairment using its best estimates based on reasonable and supportable assumptions and projections in accordance with FASB ASC 360, "Property, Plant and Equipment" ("ASC 360").

ATRICURE, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Intangible Assets—Intangible assets with determinable useful lives are amortized on a straight-line basis over the estimated periods benefited, which range from four to eight years.

Grant Income—The Company receives research grants, which are recognized as funds are expended and not as awarded by awarding agencies.

Income Taxes—Income taxes are computed using the asset and liability method in accordance with FASB ASC 740 "Income Taxes" ("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. Tax credits are accounted for as a reduction of income taxes in the year in which the credit originates.

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. The Company's ability to realize the deferred tax assets depends on its future taxable income as well as limitations on their utilization. A deferred tax asset is reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized prior to its expiration. The projections of the Company's operating results on which the establishment of a valuation allowance is based involve significant estimates regarding future demand for the Company's products, competitive conditions, product development efforts, approvals of regulatory agencies and product cost. If actual results differ from these projections, or if the Company's expectations of future results change, it may be necessary to adjust the valuation allowance.

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 3,112,535 and 3,491,142 options, restricted stock and performance based shares as of September 30, 2011 and 2010, 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 exchange rate adjustments and unrealized gains and losses on investments. The comprehensive loss for the three and nine months ended September 30, 2011 was $1,343,704 and $3,542,492, respectively. The comprehensive loss for the three and nine months ended September 30, 2010 was $788,003 and $3,813,216, respectively.

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

	Unrealized Gains (Losses) on Short-Term Investments	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2010	$ (321)	$ 79,946	$ 79,625
January 1, 2011 to March 31, 2011 change	2,332	13,242	15,574
Balance as of March 31, 2011	2,011	93,188	95,199
April 1, 2011 to June 30, 2011 change	(292)	5,629	5,337
Balance as of June 30, 2011	$ 1,719	$ 98,817	$ 100,536
July 1, 2011 to September 30, 2011 change	(688)	(186,679)	(187,368)
Balance as of September 30, 2011	$ 1,031	$ (87,862)	$ (86,831)

Foreign Currency Transaction Gains (Losses)—The Company recorded foreign currency transaction gains (losses) of $17,522 and ($10,627) for the three months ended September 30, 2011 and 2010, respectively, and $153,810 and ($170,579) for the nine months ended September 30, 2011 and 2010, respectively, in connection with partial settlements of its intercompany balance with its subsidiary.

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.

ATRICURE, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 September 30, 2011 and 2010 was $715,711 and $700,919 respectively, and $2,243,064 and $2,133,739 for the nine months ended September 30, 2011 and 2010, 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. 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 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 and the peer group's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. For non-employee options, the fair value at the date of grant is subject to adjustment at each vesting date based upon the fair value of the Company's common stock.

The Company estimates the fair value of restricted stock and performance share awards 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 and, in the case of performance shares, the likelihood that the performance measures will be achieved.

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.

The Company has historically issued stock options to non-employee consultants as a form of compensation for services provided to the Company. The Company accounts for the options granted to non-employees prior to their vesting date in accordance with ASC 505-50, "Equity-Based Payments to Non-Employees." Because these options do not contain specific performance provisions, there is no measurement date of fair value until the options vest. Therefore, the fair value of the options granted and outstanding prior to their vesting date is remeasured each reporting period. During the three months ended September 30, 2011, $4,377 of income was recorded as a result of the remeasurement of the fair value of these unvested stock options. During the three months ended September 30, 2010, $4,205 of compensation expense was recorded as a result of the remeasurement of the fair value of these unvested stock options. During the nine months ended September 30, 2011 and 2010, $6,327 and $10,366, respectively, of expense was recorded as a result of the remeasurement of the fair value of these unvested stock options.

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 options, when vested, are no longer eligible for equity classification and are, thus, subsequently 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.

During the three months ended September 30, 2011, income of $109,658 was recorded as a result of the remeasurement of the fair value of these fully vested stock options. During the three months ended September 30, 2010, expense of $44,125 was recorded as a result of the remeasurement of the fair value of these fully vested stock options. During the nine months ended September 30, 2011, $60,684 of income was recorded as a result of the remeasurement of the fair value of these fully vested stock options. During the nine months ended September 30, 2010, $71,619 of expense was recorded as a result of the remeasurement of the fair value of these fully vested stock options. Fully vested options to acquire 39,603 and 41,049 shares of common stock held by non-employee consultants remained unexercised as of September 30, 2011 and December 31, 2010, respectively. A liability of $225,332 and $268,478 was included in accrued liabilities in the Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, respectively.

ATRICURE, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, other liabilities and fixed interest rate debt, approximate their fair values.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued new guidance in ASC 985, "Software," which amends the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted), modify the criteria for recognizing revenue in multiple element arrangements and the scope of what constitutes a non-software deliverable. The Company has evaluated the provisions of ASC 985 and has determined that it does not have a material impact on its consolidated financial position and results of operations.

In January 2010, the FASB issued new guidance in ASC 820, "Fair Value Measurements and Disclosures," which requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements including (i) significant transfers into and out of Level 1 and Level 2 fair value measurements and (ii) information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures, which are effective for interim and annual periods beginning after December 15, 2010. The Company has incorporated the additional disclosures required for fair value measurements.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement." The ASU is the result of joint efforts by the FASB and IASB to develop a single, converged fair value framework, that is, converged guidance on how (not when) to measure fair value and on what disclosures to provide about fair value measurements. While the ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands ASC 820's existing disclosure requirements for fair value measurements and makes other amendments. Some of the amendments could change how the fair value measurement guidance in ASC 820 is applied. The ASU is effective for interim and annual reporting periods beginning after December 15, 2011. The Company is in the process of evaluating the impact of this ASU on its financial reporting.

In June 2011, the FASB issued new guidance in Accounting Standards Update ("ASU") 2011-05, "Presentation of Comprehensive Income," which revises the manner in which entities present comprehensive income in their financial statements. This new guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. It is effective for interim and annual reporting periods beginning after December 15, 2011. The Company is in the process of evaluating the impact of this ASU on its financial reporting.

3. FAIR VALUE

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

- Level 1—Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The valuation under this approach does not entail a significant degree of judgment.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The valuation technique for the Company's Level 2 assets is based on quoted market prices for similar assets from observable pricing sources at the reporting date.

ATRICURE, INC. AND SUBSIDIARY
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(Unaudited)

- 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.

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 September 30, 2011:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds	$ —	$ 1,528,116	$ —	$ 1,528,116
Commercial paper	—	3,498,249	—	3,498,249
U.S. government agencies and securities	6,764,700	—	—	6,764,700
Corporate bonds	—	1,524,387	—	1,524,387
Total assets	$ 6,764,700	$ 6,550,752	$ —	$13,315,452
Liabilities:				
Derivative instruments	$ —	$ —	$ 225,332	$ 225,332
Total liabilities	$ —	$ —	$ 225,332	$ 225,332

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, 2010:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds	$ —	$ 1,222,618	$ —	$ 1,222,618
Commercial paper	—	2,399,038	—	2,399,038
U.S. government agencies and securities	5,836,594	—	—	5,836,594
Corporate bonds	704,207	—	—	704,207
Total assets	$ 6,540,801	$ 3,621,656	$ —	$10,162,457
Liabilities:				
Derivative instruments	$ —	$ —	$ 268,478	$ 268,478
Total liabilities	$ —	$ —	$ 268,478	$ 268,478

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

	As of September 30, 2011	As of December 31, 2010
Risk free interest rate	0.16%–1.05%	0.12%–1.86%
Expected life of option (years)	1.22–5.36	0.16–4.71
Expected volatility of stock	70.00%	65.00%
Dividend yield	0.00%	0.00%

The Company has 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 ("Derivatives and Hedging") 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, weighted average 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. Specifically, before December 31, 2010, the Company's estimate of volatility was weighted 75% and 25% between the Company's implied volatility and the implied volatility of a group of comparable companies, respectively. Beginning January 1, 2011, the Company's estimate of volatility is based solely 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 September 30, 2011:

Beginning Balance–January 1, 2011	$268,478
Total gains (realized/unrealized) included in earnings	(60,684)
Purchases	—
Issuances	17,538
Settlements	—
Ending Balance–September 30, 2011	$225,332
Gains included in earnings (or changes in net assets attributable to the change in unrealized gains relating to assets held at reporting date)	$ 60,684

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, 2010:

Beginning Balance–January 1, 2010	$ 180,288
Total losses (realized/unrealized) included in earnings	164,959
Purchases, issuances and settlements	(76,769)
Ending Balance–December 31, 2010	$ 268,478
Losses included in earnings (or changes in net assets attributable to the change in unrealized losses relating to assets held at reporting date)	$(164,959)

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:

	Proprietary Manufacturing Technology	Non-Compete Agreement	Trade Name	Total
Net carrying amount as of December 31, 2009	$ 130,778	$ 69,792	$ 87,083	$ 287,653
Amortization	(130,778)	(12,500)	(55,000)	(198,278)
Net carrying amount as of December 31, 2010	—	57,292	32,083	89,375
Amortization	—	(9,376)	(32,083)	(41,459)
Net carrying amount as of September 30, 2011	$ —	$ 47,916	$ —	$ 47,916

Amortizable intangible assets were amortized over four years for trade name usage and five years for proprietary manufacturing technology. A non-compete agreement is being amortized over eight years. Amortization expense related to intangible assets with definite lives was $7,708 and $40,653 for the three months ended September 30, 2011 and 2010, respectively, and $41,459 and $181,403 for the nine months ended September 30, 2011 and 2010, respectively.

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Estimated future amortization expense related to intangible assets with definite lives is as follows:

Year	Amortization	
2011	$ 3,125	October 1, 2011 through December 31, 2011
2012	12,500	
2013	12,500	
2014	12,500	
2015	7,291	
Total	$ 47,916	

5. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	September 30, 2011	December 31, 2010
Accrued commissions	$ 918,160	$1,178,854
Accrued taxes	715,723	435,495
Accrued DOJ settlement reserve (current portion)	610,961	486,975
Other accrued liabilities	470,836	671,477
Accrued vacation	249,335	257,235
Accrued bonus	239,866	894,492
Accrued non-employee stock options	225,332	268,478
Accrued payroll	175,838	137,399
Accrued class action settlement reserve	—	2,000,000
Total	$ 3,606,051	$6,330,405

6. INDEBTEDNESS

On May 1, 2009, the Company and Silicon Valley Bank (“SVB”) entered into a Loan and Security Agreement (the “Agreement”) that provided for a term loan and a revolving credit facility under which the Company could borrow a maximum of $10,000,000. The Company could borrow up to $10,000,000 under the revolving loan facility with the availability subject to a borrowing base formula. On May 1, 2009, the Company borrowed the maximum amount of $6,500,000 under the term loan. In connection with the term loan, SVB received a warrant to purchase 371,732 shares of the Company’s common stock at $1.224 per share, exercisable for a term of ten years (the “Warrant”). The Warrant was immediately exercisable and was exercised via a net share settlement exercise on October 6, 2009, resulting in the issuance of 276,143 shares of the Company’s common stock. Upon issuance of the term loan and the Warrant, the Company allocated the related proceeds between these two financial instruments based on their relative fair values in accordance with FASB ASC 470, “Debt.” Proceeds of $455,000 were allocated to the Warrant and recorded as additional paid-in-capital, and the remaining proceeds of $6,045,003 were recorded as the initial net carrying value of the debt. The Agreement also included up to a $1,000,000 sublimit for stand-by letters of credit.

On November 4, 2009, effective September 30, 2009, the Company entered into a Consent, Waiver and First Loan Modification Agreement with SVB, which amended, among other things, the financial covenants in the Agreement. On March 26, 2010, the Company entered into a Waiver and Second Loan Modification Agreement with SVB, which amended, among other things, the financial covenants in the Agreement and waived a compliance violation which occurred during February 2010.

On September 13, 2010, the Company entered into an Amended and Restated Loan and Security Agreement with SVB and an Export-Import Bank Loan and Security Agreement. This amendment increased the Company’s credit facility from $10,000,000 to approximately $14,000,000. The amendment also increased the Company’s borrowing capacity under the revolving loan facility by expanding total availability, eliminating a term loan reserve requirement, adding a sublimit secured by certain of the Company’s foreign accounts receivable and inventory up to $2,000,000 and adding incremental borrowing availability secured by a portion of the Company’s domestic inventory. Interest on the term loan portion accrued at a rate of 10.0% per year, and interest on the revolving loan would accrue at a fluctuating rate equal to SVB’s announced prime rate of interest, subject to a floor of 4.0%, plus between 1.0% and 2.0%, depending on the Company’s Adjusted Quick Ratio (as defined in the Agreement). Principal on the term loan was being paid over 36 months in equal principal payments of $180,556 plus applicable interest. The Agreement was to mature on April 30, 2012 and was secured by all of the Company’s assets, including intellectual property.

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On March 15, 2011, the Company and SVB entered into a First Loan Modification Agreement (the "Loan Modification Agreement") and an Export-Import Bank First Loan Modification Agreement (the "Ex-Im Agreement" and, collectively with the Loan Modification Agreement, the "Modification Agreements") which set forth certain amendments to the Company's credit facility with SVB. The Loan Modification Agreement provided for a new $7,500,000 term loan. The proceeds from the term loan were used to repay the amount outstanding under the existing SVB term loan of $2,500,000. The balance was invested in short-term investments. The new term loan has a five-year term, and principal payments in the amount of $125,000, together with accrued interest, are due and payable monthly. The modified term loan accrues interest at a fixed rate of 6.75%.

The Modification Agreements also provide for a two-year extension of the maturity date of the existing revolving credit facility from April 30, 2012 to April 30, 2014. The applicable borrowing rate was reduced to 0.25% to 0.75% above the prime rate. The maximum borrowing amount under the revolving facility remained at $10,000,000.

The Agreement, as amended, 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 adjusted quick ratio. Further, a minimum fixed charge ratio applies when the Company achieves specific covenant milestones. 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 and for the period ended September 30, 2011, the Company was in compliance with all of the financial covenants of the 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, the Company must repay all loans under the Export-Import agreement.

As of September 30, 2011, the Company had no borrowings under the revolving credit facility and had borrowing availability of approximately $8,200,000. Also, as of September 30, 2011, $6,750,000 was outstanding under the term loan, which included $1,500,000 classified as current maturities of long-term debt.

The Warrant that was issued with the initial SVB Agreement had been recorded as a discount on long-term debt at its fair value and was being amortized over the term of the loan. Accelerated amortization expense of $78,873 was recorded in March 2011 due to the credit facility modification. No amortization expense related to the Warrant was recorded for the three months ended September 30, 2011.

In addition to the accelerated amortization of the Warrant, the Company also recorded $74,228 of expense related to deferred financing costs and other fees as a result of the credit facility modification in March 2011.

The effective interest rate on borrowings under the modified term loan, including debt issuance costs, is 8.0%. On June 20, 2011, the Company cancelled an outstanding letter of credit of $250,000 issued to its corporate credit card program provider which was to expire on July 31, 2011.

As of September 30, 2011, the Company had capital leases for computer and office equipment that expire at various terms through 2015, and the cost of the assets under lease was $234,503. These assets are depreciated over the estimated useful lives of the assets, which equal the term of the lease. Accumulated amortization on the capital leases was $157,149 at September 30, 2011.

Maturities on long-term debt, including capital lease obligations, are as follows:

2011	$ 383,367	October 1, 2011 through December 31, 2011
2012	1,535,630	
2013	1,517,288	
2014	1,507,501	
2015	1,501,995	
2016	375,000	
Total	$ 6,820,781	

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As of December 31, 2010, the Company had no borrowings under its revolving credit facility and borrowing availability of $8,136,523. Also as of December 31, 2010, the Company had $2,888,889 outstanding under its term loan, which included $2,166,667 classified as current maturities of long-term debt. As of December 31, 2010, the Company had an outstanding letter of credit of $250,000 issued to its corporate credit card program provider. This letter of credit was cancelled in June 2011 and no letters of credit were outstanding at September 30, 2011.

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 2014.

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. One royalty agreement, which was effective January 1, 2010, has a rate of 1.5% of product sales and includes minimum quarterly payments of $50,000 through 2015 and a maximum of $2,000,000 in total royalties over the term of the agreement. Another royalty agreement, which was effective in 2003 and has a term of at least twenty years, has royalty rates of 5% of product sales. Parties to the royalty agreements have the right at any time to terminate the agreement immediately for cause. Royalty expense of $120,632 and $109,422 was recorded as part of cost of revenue for the three months ended September 30, 2011 and 2010, respectively, and $377,182 and $219,470 for the nine months ended September 30, 2011 and 2010, respectively.

Purchase Agreement

On June 15, 2007, the Company entered into a purchase agreement with MicroPace Pty Ltd Inc. (“MicroPace”). 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™“ for worldwide distribution by the Company. Pursuant to the terms of the amended agreement, in order for the Company to retain exclusive distribution rights, the Company is required to purchase a minimum of 40 units during the period December 1, 2010 through December 31, 2011 to extend exclusivity through 2012 and an additional 40 units during 2012 to extend exclusivity through December 31, 2013. A total of 51 units were purchased by the Company between December 1, 2010 and September 30, 2011, thereby extending exclusive distribution rights through December 31, 2012. Units purchased in excess of yearly minimums reduce future minimum purchase requirements.

Life Support Technology, LST b.v.

In September 2007, multiple proceedings between the Company and Life Support Technology (“LST b.v.” or “LST”), a former distributor of AtriCure products in Europe, were settled. The settlement agreement provided for the Company to pay LST €257,360 (Euros) in 16 payments of €16,085, with the final payment made in January 2011.

Distributor Termination

On July 2, 2010, the Company terminated a distributor agreement with a European distributor. Under the terms of the agreement the Company paid the distributor €200,000 (approximately $256,000), repurchased saleable disposable product inventory for €107,196 (approximately $137,000), and paid €75,000 (approximately $96,000) for capital equipment. Additionally, the Company entered into a consulting agreement with the distributor to provide ongoing consulting services through September 30, 2012. In exchange for these services, beginning October 1, 2010, the distributor will earn €50,000 (approximately $70,000) per quarter for a total of €400,000 (approximately $560,000). Additionally, the distributor earned €10,000 (approximately $14,000) per month for consulting services during the third quarter of 2010.

Legal

Class Action Lawsuits

AtriCure, Inc. and certain of its current and former officers were named as defendants in a purported securities class action lawsuit filed in the United States District Court for the Southern District of New York (Levine v. AtriCure, Inc., Case No. 06 CV 14324 (United States District Court for the Southern District of New York)). The suit alleges violations of the federal securities laws and seeks damages on behalf of purchasers of the Company’s common stock during the period from our initial public offering in August 2005 through February 16, 2006. The Company filed a motion to dismiss the lawsuit for lack of subject matter jurisdiction. This motion was denied in September 2007, and a motion for reconsideration of that denial was denied in January 2009. Although the

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Company admitted no wrongdoing, as of December 31, 2009, the Company recorded a liability of $2,000,000 which represented an estimate of the potential defense and/or settlement costs. In addition, the Company recorded a related receivable of $2,000,000 from its insurance carrier for the potential defense and/or settlement costs, as recovery was expected beyond a reasonable doubt. On October 22, 2010, the parties signed a Definitive Stipulation of Settlement for $2,000,000, which was subject to notice to the class as well as approval by the court, which occurred on May 27, 2011. The Company's insurance carrier paid the claim in full in June 2011.

On December 12, 2008, AtriCure, Inc. and certain of its current executive officers were named in a putative class action lawsuit which is now captioned In re AtriCure, Inc. Securities Litigation, filed in the U.S. District Court for the Southern District of Ohio, Western Division. The plaintiffs allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and seek unspecified damages against AtriCure, Inc. and certain of its current executive officers. The plaintiffs allege, among other things, that the defendants issued materially false and misleading statements that failed to disclose that the Company improperly promoted certain products to physicians and caused the filing of false claims for reimbursement. The class period alleged ran from May 10, 2007 through October 31, 2008. In July 2009 the Company filed a motion to dismiss, and in September 2009, the plaintiffs filed their memorandum in opposition to the Company's motion to dismiss to which the Company responded on November 9, 2009. On March 29, 2010, the court granted, in part, and denied, in part, the Company's motion to dismiss and, in particular, dismissed the claim that the Company caused the filing of false claims for reimbursement. On October 7, 2010, the court ordered final approval of the settlement for $2,750,000 which was funded by the Company's insurance carrier.

Department of Justice Investigation

On October 27, 2008, the Company received a letter from the Department of Justice ("DOJ") informing the Company that the DOJ 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 atrial fibrillation ("AF"), 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. As of December 31, 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 $3,955,405 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 $4,350,000, payable over five years).

On February 2, 2010, the settlement was finalized pursuant to the preliminary terms 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 September 30, 2011, the Company had made $1,087,500 in payments (including interest), and has a liability related to this settlement totaling $3,084,881, of which $610,961 is 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.

***Qui Tam* Complaint**

On July 10, 2009, a copy of a *qui tam* complaint against the Company was unsealed. The *qui tam* complaint, filed in the U.S. District Court for the Southern District of Texas, was originally filed by the Relator in August 2007. The complaint, which was related to the DOJ investigation, alleged a cause of action under the FCA relating to the Company's alleged marketing practices in connection with its surgical cardiac ablation devices. In August 2009 the DOJ declined to intervene in the *qui tam* complaint. The *qui tam* complaint was settled in February 2010 in accordance with the DOJ settlement agreement.

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. Tax credits are accounted for as a reduction of

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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.

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 September 30, 2011 and 2010 was (1.08%) and (0.14%), respectively. The effective tax rate for the nine months ended September 30, 2011 and 2010 was (0.78%) and 0.07%, respectively.

The Company currently has not had to accrue 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 within the related tax liability 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 2001 Plan and the 2005 Plan generally expire ten years from the date of grant. Options granted from the 2001 Plan are generally exercisable beginning one year from the date of grant in cumulative yearly amounts of 25% of the shares granted. Options granted from the 2005 Plan generally vest over four years at a rate of 25% on the first anniversary date of the grant and ratably each month thereafter. Certain options granted were exercisable at the time of the grant and the underlying unvested shares are subject to the Company's repurchase rights as stated in the applicable plan agreement.

As of September 30, 2011, 5,812,198 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;
- 825,000 shares; or
- an amount the Company's Board of Directors may determine.

On January 1, 2011, an additional 509,067 shares were authorized for issuance under the 2005 Plan representing 3.25% of the outstanding shares on that date. As of September 30, 2011 there were 954,603 shares available for future grants under the plans.

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Activity under the Plans during the nine months ended September 30, 2011 was as follows:

Stock Options	Number of Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	2,787,354	$ 7.82		
Granted	243,500	$ 12.27		
Cancelled or forfeited	(32,350)	$ 7.92		
Exercised	(338,505)	$ 3.12		
Outstanding at September 30, 2011	2,659,999	$ 8.83	5.64	$5,141,741
Vested and expected to vest	2,636,621	$ 8.82	5.61	$5,106,372
Exercisable at September 30, 2011	2,022,934	$ 8.93	4.90	$3,665,307

Restricted Stock	Number of Shares Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2011	371,700	$ 4.39
Granted	179,500	$ 11.59
Forfeited	(2,337)	$ 3.65
Released	(106,327)	$ 4.29
Outstanding at September 30, 2011	442,536	$ 7.34

The total intrinsic value of options exercised during the three month periods ended September 30, 2011 and 2010 was $13,430 and $41,663, respectively. The total intrinsic value of options exercised during the nine month periods ended September 30, 2011 and 2010 was $2,911,115 and $183,763, respectively. As a result of the Company's tax position, no tax benefit was recognized related to the stock option exercises. For the nine month periods ended September 30, 2011 and 2010, respectively, $1,056,492 and $204,354 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 performance shares vested during the three month periods ended September 30, 2011 and 2010 was $0 and $0, respectively. The total fair value of performance shares vested during the nine month periods ended September 30, 2011 and 2010 was $1,243,200 and $0, respectively. The total fair value of restricted stock vested during the three month periods ended September 30, 2011 and 2010 was $817,445 and $465,616, respectively. The total fair value of restricted stock vested during the nine month periods ended September 30, 2011 and 2010 was $1,307,606 and $677,450, 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 stock options and restricted stock for the three months ended September 30, 2011 and 2010 of $633,002 and $578,336, respectively, and for the nine months ended September 30, 2011 and 2010 of $2,018,271 and $1,762,682, respectively. As of September 30, 2011 there was $5,824,027 of unrecognized compensation costs related to non-vested stock option and restricted stock arrangements ($3,070,192 relating to stock options and $2,753,835 relating to restricted stock). This cost is expected to be recognized over a weighted average period of 2.3 years for stock options and 1.6 years for restricted stock.

The Company has issued performance shares to certain employees and consultants to incent and reward them for the achievement of specified performance over various service periods. The participants receive awards for a specified number of shares of the Company's common stock at the beginning of the award period, which entitles the participants to the shares at the end of the award period if achievement of the specified metrics and service requirements occurs. During the first quarter of 2011, 111,000 performance shares (gross) were released related to participant's achievement of certain specified metrics. As of September 30, 2011 the Company has the potential to issue 10,000 shares of common stock based upon the participant meeting all of the specified metrics. In accordance with FASB ASC 718, the Company estimates the number of shares to be granted based upon the probability that the performance metric and service period will be achieved. The fair value of the estimated award, based on the market value of the Company's stock on the date of award, is expensed over the award period. The probability of meeting the specified metrics is reviewed quarterly. During the three months ended September 30, 2011 and 2010, the Company recognized expense related to performance shares of $0 and $73,959, respectively. During the nine months ended September 30, 2011 and 2010, the Company

recognized expense related to performance shares of $0 and $237,878, respectively. As of September 30, 2011, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements associated with these performance shares.

Employee Stock Purchase Plan (ESPP)

During the second quarter of 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 $25,000 of the Company's common stock in a calendar year and, effective January 1, 2009, may not purchase more than 1,500 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 600,000 shares, or (ii) a lesser amount determined by the Board of Directors. At September 30, 2011, there were 897,157 shares available for future issuance under the ESPP, including 313,272 additional shares approved for issuance by the Company's Board of Directors effective January 1, 2011. Share-based compensation expense with respect to the ESPP was $82,709 and $48,624 for the three months ended September 30, 2011 and 2010, respectively, and $224,793 and $133,179 for the nine months ended September 30, 2011 and 2010, 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 and nine months ended September 30, 2011 and 2010. This expense was allocated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cost of revenue	$ 39,501	$ 37,409	$ 121,373	$ 110,163
Research and development expenses	98,408	124,558	348,456	356,411
Selling, general and administrative expenses	577,802	538,953	1,773,235	1,667,165
Total share-based compensation expense related to employees	$ 715,711	$ 700,920	$ 2,243,064	$ 2,133,739

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Risk free interest rate	1.97%	2.18%	1.97%–2.78%	2.18%–2.88%
Expected life of option (years)	6.25	6.25	6.00–6.25	6.00–6.25
Expected volatility of stock	71.00%	68.00%	71.00%–72.00%	68.00%–71.00%
Weighted-average volatility	71.00%	68.00%	71.62%	69.39%
Dividend yield	0.00%	0.00%	0.00%	0.00%

For grants made before December 31, 2010, the Company's estimate of volatility was weighted between the Company's trading history and other companies in the industry. Beginning January 1, 2011, 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 simplified method is utilized in determining the expected life of the option.

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

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:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Stock options	$ 8.50	$ 4.01	$ 8.03	$ 3.56
Restricted stock	—	$ 6.53	$ 11.59	$ 5.63

Non-Employee Stock Compensation

The Company has 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 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 fair value at the date of grant, which is subject to adjustment at each vesting date, was determined using the Black-Scholes model. There were no non-employee stock options granted during the three and nine month periods ended September 30, 2011 and 2010. The values attributable to the non-vested portion of the non-employee stock options have been amortized over the service period on a graded vesting method and the vested portion of these stock options was remeasured at each vesting date.

The Company accounts for the options granted to non-employees prior to their vesting date in accordance with ASC 505-50, *Equity-Based Payments to Non-Employees*. Because these options do not contain specific performance provisions, there is no measurement date of fair value until the options vest. Therefore, the fair value of the options granted and outstanding prior to their vesting date is remeasured each reporting period. Stock compensation income (expense) with respect to unvested non-employee stock options totaled $4,377 and ($4,205) for the three months ended September 30, 2011 and 2010, respectively. Stock compensation expense with respect to unvested non-employee stock options totaled $6,327 and $10,366, respectively, for the nine months ended September 30, 2011 and 2010.

Once these non-employee 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 ("Derivatives and Hedging") until the stock options are ultimately either exercised or forfeited. Accordingly, the vested non-employee stock options are classified as liabilities and remeasured at fair value through earnings at each reporting period. During the three months ended September 30, 2011, $109,658 of income was recorded as a result of the remeasurement of the fair value of these stock options. During the three months ended September 30, 2010, $44,125 of expense was recorded as a result of the remeasurement of the fair value of these stock options. During the nine months ended September 30, 2011 $60,684 of income was recorded as a result of the remeasurement of the fair value of these stock options. During the nine months ended September 30, 2010, $71,619 of expense was recorded as a result of the remeasurement of the fair value of these stock options. As of September 30, 2011 and December 31, 2010, respectively, fully vested stock options to acquire 39,603 and 41,049 shares of common stock held by non-employee consultants remained unexercised and a liability of $225,332 and $268,478 was included in accrued liabilities in the Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, 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.

Geographic revenue was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
United States	$ 11,757,639	$ 11,554,449	$ 36,541,934	$ 34,449,920
International	3,464,429	2,918,664	11,096,778	8,167,305
Total	$ 15,222,068	$ 14,473,113	$ 47,638,712	$ 42,617,225

Substantially all of the Company's long-lived assets are located in the United States.

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

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, 2010 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, 2010. 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. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise.

Overview

We are a medical device company and a leader in developing, manufacturing and selling innovative cardiac surgical ablation systems designed to create precise lesions, or scars, in cardiac, or heart, tissue and systems designed to exclude the left atrial appendage. We have two product lines for the ablation of cardiac tissue. Our primary product line for the ablation of cardiac tissue, which accounts for a majority of our revenue, is our Isolator® Synergy bipolar ablation clamp system, or Isolator system, and related radiofrequency 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 System, or AtriClip system, which is designed to safely and effectively exclude the left atrial appendage.

Cardiothoracic surgeons have adopted our Isolator and cryoablation systems to treat atrial fibrillation, or AF, in an estimated 100,000 patients since January 2003, and we believe that we are currently the market leader in the surgical treatment of AF. Our products are utilized by cardiothoracic surgeons during concomitant cardiac surgical procedures and also during sole-therapy minimally invasive cardiac ablation procedures. During a concomitant open procedure, the surgeon ablates cardiac tissue and/or treats the left atrial appendage, secondary, or concomitant, to a primary cardiac procedure such as a valve or coronary bypass. Additionally, cardiothoracic surgeons have adopted our products as a standard treatment alternative for AF patients who may be candidates for sole-therapy minimally invasive surgical procedures. To date, none of our products have been approved or cleared by the Food and Drug Administration, or FDA, for the treatment of AF or the reduction of stroke. However, we are conducting clinical trials to investigate the safety and effectiveness of our products for the treatment of AF. 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 AF or for the exclusion of the left atrial appendage.

Recent Developments

During the third quarter of 2010, our DEEP AF clinical trial was approved by the FDA. DEEP AF is a feasibility trial designed to evaluate the safety and effectiveness of our minimally invasive products with catheter mapping and ablation technologies for the treatment of patients with persistent or long-standing persistent AF. During the first quarter of 2011, the trial was modified to include the use of the AtriClip system to exclude the left atrial appendage. The 30-patient trial is being conducted at six U.S. medical centers. Enrollment in the trial was initiated in December 2010 and is anticipated to be completed during 2011. To date, 24 patients have been enrolled in the trial.

In December 2010 we submitted our final clinical module to the FDA, including the supplementary data, in support of a PMA approval for our Synergy Ablation System for the treatment of AF during concomitant open-heart procedures. During February 2011, we were notified by the FDA that our PMA achieved fileable status and received expedited review status. In March 2011 we received a major deficiency letter related to the ABLATE PMA which highlights items on which the FDA requests clarification, and, in June 2011 we responded to these questions. Additionally, during February 2011, the FDA began its PMA manufacturing review, which

resulted in the issuance of a Form FDA 483, Inspectional Observations, which outlined deficiencies observed by the FDA inspectors. We responded to the observations and have taken corrective actions where appropriate. On October 26, 2011 the ABLATE PMA was reviewed at a meeting of the FDA's Circulatory System Devices Panel. The panel recommended approval by the FDA of AtriCure's Synergy Ablation System. An approval of the ABLATE PMA, as recommended by the panel, would allow us to market our Synergy Ablation System for the treatment of patients with persistent and long-standing persistent AF. The approval recommendation by the panel includes a post-approval study and a physician training program. The FDA is not required to follow the panel's recommendation.

In April 2011 we received clearance from the FDA for our Isolator Synergy Access™ device for the ablation of cardiac tissue during surgery. We initiated a full commercial release of Isolator Synergy Access in July 2011.

In May 2011 we received clearance from the FDA for our *cryo*ICE BOX generator for the cryosurgical treatment of cardiac arrhythmias. We received CE Mark for the *cryo*ICE BOX in February 2011. We initiated a limited commercial release of *cryo*ICE BOX in Europe in June 2011. During July 2011 we submitted a supplemental 510(k) to the FDA for enhancements made to the *cryo*ICE BOX, which was approved in August 2011. We anticipate a full commercial release of cryoICE BOX by the end of the fourth quarter of 2011.

In June 2011 we began planning for the discontinuance of the manufacturing of our Coolrail and Cryo1 devices, which have been replaced with our Multifunctional Linear Pen and *cryo*ICE devices, respectively.

In July 2011 we were awarded a $1 million grant from the Ohio Third Frontier Commission, a technology-based economic development initiative dedicated to supporting existing industries that are transforming themselves with new globally competitive products and fostering the formation and attraction of new companies in emerging industry sectors in the state of Ohio. The grant will be used to develop and commercialize a left atrial appendage exclusion device for use in minimally invasive standalone procedures.

In August 2011 we filed an IDE with the FDA for a new feasibility trial. The 30-patient trial is designed to study the thoracoscopic deployment of the AtriClip system for the exclusion of the left atrial appendage for stroke prevention in patients with non-valvular AF who are contra-indicated for anticoagulation therapy. We received feedback from the FDA, and we are working with the FDA to address certain comments and questions. We anticipate responding during the fourth quarter of 2011.

Results of Operations

Three months ended September 30, 2011 compared to three months ended September 30, 2010

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 September 30,			
	2011		2010	
	Amount	% of Revenues	Amount	% of Revenues
	(dollars in thousands)			
Revenue	$15,222	100.0%	$14,473	100.0%
Cost of revenue	4,137	27.2%	3,299	22.8%
Gross profit	11,085	72.8%	11,174	77.2%
Operating expenses:				
Research and development expenses	3,069	20.2%	2,937	20.3%
Selling, general and administrative expenses	9,207	60.5%	9,068	62.7%
Total operating expenses	12,276	80.6%	12,005	82.9%
Loss from operations	(1,191)	(7.8%)	(831)	(5.7%)
Other income (expense):				
Interest expense	(170)	(1.1%)	(200)	(1.4%)
Interest income	5	0.0%	5	0.0%
Other	212	1.4%	(2)	(0.0%)
Total other income (expense)	47	0.3%	(197)	(1.4%)
Loss before income tax expense	(1,144)	(7.5%)	(1,028)	(7.1%)
Income tax expense	(12)	(0.1%)	(1)	(0.0%)
Net loss	$ (1,156)	(7.6%)	$ (1,029)	(7.1%)

Revenue. Total revenue increased 5.2% (4.3% on a constant currency basis), from $14.5 million for the three months ended September 30, 2010 to $15.2 million for the three months ended September 30, 2011. Revenue from sales to customers in the United States increased $0.2 million, or 1.8%, and revenue from sales to international customers increased $0.5 million, or 18.7% (14.3% on a constant currency basis). The increase in sales to customers in the United States was primarily due to increased sales of the AtriClip system of $0.4 million, a new product offering that was released at the end of the second quarter of 2010. This increase was partially offset by a reduction in revenue from ablation-related products, which we believe was due primarily to a reduction in minimally invasive standalone cardiac ablation procedures. The increase in international revenue was primarily due to an increase in product sales in Asia and in our direct European markets.

Cost of revenue and gross margin. Cost of revenue increased $0.8 million, from $3.3 million for the three months ended September 30, 2010 to $4.1 million for the three months ended September 30, 2011. The increase in cost of revenue was primarily due to an increase in revenue and an increase in product cost primarily due to an increased mix of capital equipment sales, an increase in resources being dedicated to manufacturing related activities and an increase in manufacturing scrap. As a percentage of revenue, cost of revenue increased from 22.8% for the three months ended September 30, 2010 to 27.2% for the three months ended September 30, 2011. Gross margin for the three months ended September 30, 2011 and 2010 was 72.8% and 77.2%, respectively. The decrease in gross margin was primarily due to:

- an increased mix of revenue from the AtriClip system and cryo devices, which have lower gross margins than other single-use products;
- a reduction in average selling prices due primarily to bundling of products;
- an increase in scrap driven primarily by new products;
- an increase in capital equipment sales; and
- an increased mix of international sales.

Research and development expenses. Research and development expenses increased $0.1 million, from $2.9 million for the three months ended September 30, 2010 to $3.1 million for the three months ended September 30, 2011. As a percentage of revenue, research and development expenses decreased from 20.3% for the three months ended September 30, 2010 to 20.2% for the three months ended September 30, 2011. The increase in expense was primarily due to a $0.3 million increase in clinical activities and clinical trial enrollment related expenses.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $0.1 million, or 1.5%, from $9.1 million for the three months ended September 30, 2010 to $9.2 million for the three months ended September 30, 2011. The increase was primarily due to a $0.4 million increase in sales and marketing expenditures, driven by a $0.5 million increase in headcount-related and travel expenses attributable to an increase in average worldwide sales and marketing headcount of 5 sales and marketing personnel in support of our growth initiatives. This increase was partially offset by a decrease in 2010 expenses of $0.3 million associated with the termination of a distributor and a $0.2 million decrease in variable compensation for administrative personnel.

Net interest expense. Net interest expense was $0.2 million for the three months ended September 30, 2011 and 2010. Net interest expense primarily represents interest expense related to amounts outstanding on our term loan, amortization of the debt discount related to the warrants issued in conjunction with the term loan and amortization of debt issuance costs.

Other income (expense). Other income (expense) consists primarily of foreign currency transaction gains (losses), grant income, and non-employee option income (expense) related to the fair market value change for fully vested options outstanding for consultants, which are accounted for as free-standing derivatives. Other income (expense) for the three months ended September 30, 2011 and 2010 totaled $212,031 and ($2,221), respectively. For the three months ended September 30, 2011 and 2010, foreign currency transaction gains (losses) were $17,522 and ($10,627), respectively. Grant income for the three months ended September 30, 2011 and 2010 was $84,851 and $52,527, respectively. Other income (expense) for the three months ended September 30, 2011 and 2010 included income (expense) of $109,658 and ($44,124), respectively, associated with changes in value of certain non-employee stock options.

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

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

	Nine Months Ended September 30,			
	2011		2010	
	Amount	% of Revenues	Amount	% of Revenues
	(dollars in thousands)			
Revenue	$47,639	100.0%	$42,617	100.0%
Cost of revenue	12,383	26.0%	9,535	22.4%
Gross profit	35,256	74.0%	33,082	77.6%
Operating expenses:				
Research and development expenses	8,892	18.7%	8,018	18.8%
Selling, general and administrative expenses	29,399	61.7%	28,018	65.7%
Total operating expenses	38,292	80.4%	36,036	84.5%
Loss from operations	(3,036)	(6.4%)	(2,954)	(6.9%)
Other income (expense):				
Interest expense	(651)	(1.4%)	(677)	(1.6%)
Interest income	13	—	18	0.0%
Other	324	0.7%	(190)	(0.4%)
Other expense	(314)	(0.7%)	(849)	(1.9%)
Loss before income tax expense	(3,350)	(7.0%)	(3,803)	(8.9%)
Income tax expense	(26)	(0.1%)	—	—
Net loss	$ (3,376)	(7.1%)	$ (3,803)	(8.9%)

Revenue. Total revenue increased 11.8% (10.8% on a constant currency basis), from $42.6 million for the nine months ended September 30, 2010 to $47.6 million for the nine months ended September 30, 2011. Revenue from sales to customers in the United States increased $2.1 million, or 6.1%, and revenue from sales to international customers increased $2.9 million, or 35.9% (30.7% on a constant currency basis). The increase in sales to customers in the United States was primarily due to increased sales of the AtriClip system of $ 3.1 million, a new product offering that was released at the end of the second quarter of 2010. This increase was partially offset by a reduction in revenue from ablation-related products, which we believe was primarily due to a reduction in minimally invasive standalone cardiac ablation procedures. The increase in international revenue was primarily due to:

- an increase in sales in Europe, primarily in our direct markets, including the benefit of transitioning the Benelux region to a direct market during the third quarter of 2010;
- an increase in sales in Asia; and
- foreign currency exchange fluctuations.

Cost of revenue and gross margin. Cost of revenue increased from $9.5 million for the nine months ended September 30, 2010 to $12.4 million for the nine months ended September 30, 2011. The increase in cost of revenue was primarily due to an increase in revenue, an increased mix of capital equipment sales, an increase in scrap and manufacturing variances and costs associated with the discontinuance of manufacturing our Coolrail and Cryo1 devices. As a percentage of revenue, cost of revenue increased from 22.4% for the nine months ended September 30, 2010 to 26.0% for the nine months ended September 30, 2011. Gross margin for the nine months ended September 30, 2011 and 2010 was 74.0% and 77.6%, respectively. The decrease in gross margin was primarily due to:

- an increased mix of revenue from capital equipment sales;
- an increased mix of AtriClip and cryo device sales, which have lower gross margins than our other single-use products;
- a reduction in average selling prices due primarily to bundling of products;
- increased scrap and manufacturing variances driven primarily by new products;
- costs associated with the discontinuance of the manufacturing of our Coolrail and Cryo1 devices, which have been replaced with our Multifunctional Linear Pen and *cryo*ICE devices, respectively; and
- an increased mix of international sales.

Research and development expenses. Research and development expenses increased $0.9 million, from $8.0 million for the nine months ended September 30, 2010 to $8.9 million for the nine months ended September 30, 2011. As a percentage of revenue, research and development expenses decreased from 18.8% for the nine months ended September 30, 2010 to 18.7% for the nine months ended September 30, 2011. The increase in expense was primarily due to a $1.3 million increase in clinical and regulatory related expenses due to a $0.4 million increase in clinical trial related enrollment expenses for our DEEP AF and ABLATE AF clinical trials and a $0.5 million increase in consulting expenses due to an increase in clinical and regulatory activities.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $1.4 million, or 4.9%, from $28.0 million for the nine months ended September 30, 2010 to $29.4 million for the nine months ended September 30, 2011. The increase was primarily attributable to a $1.2 million increase in sales and marketing expenses, due primarily to an increase of $1.4 million in headcount-related and travel expenses driven by an increase in average worldwide sales and marketing headcount of 7 sales and marketing personnel in support of our growth initiatives, offset by a $0.3 million decrease in physician consulting payments due to reduced training activities in the United States and a $0.3 million decrease in variable compensation for administrative personnel.

Net interest expense. Net interest expense was $0.7 million for the nine months ended September 30, 2011 and 2010. Net interest expense primarily represents interest expense related to amounts outstanding on our term loan, amortization of the debt discount related to the warrants issued in conjunction with the term loan and amortization of debt issuance costs.

Other income (expense). Other income (expense) consists primarily of foreign currency transaction gains (losses), grant income, and non-employee option income (expense) related to the fair market value change for fully vested options outstanding for consultants, which are accounted for as free-standing derivatives. Other income (expense) for the nine months ended September 30, 2011 and 2010 totaled $323,558 and ($189,667), respectively. For the nine months ended September 30, 2011 and 2010, foreign currency transaction gains (losses) were $153,810 and ($170,579), respectively. Grant income for the nine months ended September 30, 2011 and 2010 was $109,064 and $52,527, respectively. Other income (expense) for the nine months ended September 30, 2011 and 2010 included income (expense) of $60,684 and ($71,619), respectively, associated with changes in value of certain non-employee stock options.

Liquidity and Capital Resources

As of September 30, 2011, we had cash, cash equivalents and investments of $15.2 million and short-term and long-term debt of $6.8 million, resulting in a net cash position of $8.4 million. We had unused borrowing capacity of approximately $8.2 million under our revolving credit facility. We had net working capital of $21.8 million and an accumulated deficit of $101.1 million as of September 30, 2011.

Cash flows used in operating activities. Net cash used in operating activities for the nine months ended September 30, 2011 was $0.9 million. The primary changes in cash used in operations were as follows:

- the net loss of $3.4 million, offset by $4.1 million of non-cash expenses, including $2.2 million in share-based compensation, $1.5 million in depreciation and amortization and $0.2 million for the write-off of deferred financing costs and discount on long-term debt; and
- a net use of cash related to changes in operating assets and liabilities of $1.5 million, due primarily to the following:
    - a decrease in accounts receivable of $0.5 million, due primarily to a decrease in sales during the third quarter of 2011 as compared to the second quarter of 2011;
    - an increase in inventory of $0.9 million due primarily to increased inventory levels in support of new products and anticipated revenue growth; and
    - a $1.2 million reduction in accrued liabilities primarily due to the payment of 2010 related compensation.

Cash flows used in investing activities. Net cash used in investing activities was $4.2 million for the nine months ended September 30, 2011. The primary net uses of cash for investing activities were:

- a use of cash of $0.9 million related to the purchase of equipment, which consisted primarily of loans of our generators (i.e. our ablation and sensing unit) to our customers;
- proceeds from the sale of equipment of $0.1 million; and
- net investment purchases of $3.4 million.

Cash flows provided by financing activities. For the nine months ended September 30, 2011, net cash provided by financing activities was $4.4 million, which was primarily due to net proceeds from the modified SVB term loan borrowing of $5.0 million, proceeds from stock option exercises of $1.1 million, partially offset by shares repurchased for payment of taxes on stock awards of $0.7 million.

Credit facility. On May 1, 2009, we entered into a Loan and Security Agreement (the “Agreement”) with Silicon Valley Bank (“SVB”) that provided for a term loan and a revolving credit facility under which we could borrow a maximum of $10.0 million. We

could borrow up to $10.0 million under the revolving loan facility with the availability subject to a borrowing base formula. On May 1, 2009, we borrowed the maximum amount of $6.5 million under the term loan. In connection with the term loan, SVB received a warrant to purchase 371,732 shares of our common stock at $1.224 per share, exercisable for a term of ten years (the "Warrant"). The Warrant was immediately exercisable and was exercised via a net share settlement exercise on October 6, 2009, resulting in the issuance of 276,143 shares of our common stock. The Agreement also includes up to a $1.0 million sublimit for stand-by letters of credit.

On November 4, 2009, effective September 30, 2009, we entered into a Consent, Waiver and First Loan Modification Agreement with SVB, which amended, among other things, the financial covenants in the Agreement. On March 26, 2010, we entered into a Waiver and Second Loan Modification Agreement with SVB, which amended, among other things, the financial covenants in the Agreement and waived a compliance violation which occurred during February 2010.

On September 13, 2010, we entered into an Amended and Restated Loan and Security Agreement with SVB and an Export-Import Bank Loan and Security Agreement. This amendment increased our credit facility from $10.0 million to approximately $14.0 million. The amendment also increased our borrowing capacity under the revolving loan facility by expanding total availability, eliminating a term loan reserve requirement, adding a sublimit secured by certain of our foreign accounts receivable and inventory up to $2.0 million and adding incremental borrowing availability secured by a portion of our domestic inventory. Interest on the term loan portion accrued at a rate of 10.0% per year, and interest on the revolving loan would accrue at a fluctuating rate equal to SVB's announced prime rate of interest, subject to a floor of 4.0%, plus between 1.0% and 2.0%, depending on our Adjusted Quick Ratio (as defined in the Agreement). Principal on the term loan was being amortized over 36 months of equal principal payments of approximately $181,000, plus applicable interest. The Agreement was to mature on April 30, 2012 and was secured by all of our assets, including intellectual property.

On March 15, 2011, we entered into a First Loan Modification Agreement (the "Loan Modification Agreement") and an Export-Import Bank First Loan Modification Agreement (the "Ex-Im Agreement" and, collectively with the Loan Modification Agreement, the "Modification Agreements") which set forth certain amendments to our credit facility with SVB. The Loan Modification Agreement provided for a new $7.5 million term loan. The proceeds from the term loan were used to repay the existing SVB term loan of $2.5 million. The balance was invested in short-term investments. The new term loan has a five-year term, and principal payments in the amount of $125,000, together with accrued interest, are due and payable monthly. The modified term loan accrues interest at a fixed rate of 6.75%.

The Modification Agreements also provide for a two-year extension of the maturity date of the existing revolving credit facility from April 30, 2012 to April 30, 2014. The applicable borrowing rate was reduced to 0.25% to 0.75% above the prime rate. The maximum borrowing amount under the revolving facility remained at $10.0 million.

The Agreement, as amended, 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 under the credit facility, as amended, include a minimum EBITDA, a limitation on capital expenditures, and a minimum adjusted quick ratio. Further, a minimum fixed charge ratio applies when we achieve specific covenant milestones. 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 September 30, 2011, 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.

As of September 30, 2011, we had no borrowings under the revolving credit facility and had borrowing availability of approximately $8.2 million. Also, as of September 30, 2011, $6.8 million was outstanding under the term loan, which included $1.5 million classified as current maturities of long-term debt.

The Warrant that was issued with the initial SVB Agreement had been recorded as a discount on long-term debt at its fair value and was being amortized over the term of the loan. Accelerated amortization expense of $78,873 was recorded in March 2011 due to the credit facility modification. No amortization expense related to the Warrant was recorded for the three months ended September 30, 2011.

The effective interest rate on borrowings under the modified term loan, including debt issuance costs, is 8.0%. We had an outstanding letter of credit of $250,000 issued to our corporate credit card program provider which was due to expire on July 31, 2011. This letter of credit was cancelled in June 2011, and no letters of credit were outstanding at September 30, 2011.

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 will allow 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.

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. Significant cash needs over the next twelve months include debt service of approximately $1.9 million ($125,000 per month plus interest) on our outstanding term loan, payments under our settlement agreement with the DOJ and Relator of $0.7 million, and payments under the distributor termination and consulting agreement of approximately $0.3 million. 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. 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 September 30, 2011, we had operating lease agreements not recorded on the Condensed Consolidated Balance Sheet. Operating leases are utilized in the normal course of business.

Seasonality

During the first quarter, we have historically experienced an increase in our operating expenses and operating loss due to higher selling, general and administrative expenses related primarily to our participation in and attendance at large industry events. 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, 2010 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 September 30, 2011, 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, 2010.

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 Chief Executive Officer and Chief 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 Chief Executive Officer and Chief 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 September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, "Item 1A. Risk Factors" in our Form 10-K for the year ended December 31, 2010, 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, 2010.

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Item 6. Exhibits

Exhibit No.	Description
10.1	Employment Agreement of Patricia J. Kennedy
31.1	Rule 13a-14(a) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Rule 13a-14(a) Certification of Chief 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 Chief 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 Chief 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.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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: November 4, 2011

/s/ David J. Drachman
David J. Drachman
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 4, 2011

/s/ Julie A. Piton
Julie A. Piton
Vice President, Finance and Administration and Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit 10.1

EMPLOYMENT AGREEMENT

BETWEEN

AtriCure Europe BV

and

Ms. Patricia Kennedy

Effective as of the 1st of October 2011

Content

THIS EMPLOYMENT AGREEMENT (the “Agreement”) is effective 1 October 2011,

BETWEEN

A. **AtriCure Europe B.V.**, a limited liability company incorporated and existing under the laws of The Netherlands, with its business office at President Kennedylaan 19, 2517 JK The Hague, The Netherlands, and duly represented by Mrs. J.A. Piton, hereinafter referred to as: the “Employer”;

AND

B. **Ms. Patricia Kennedy**, an American citizen working as a ‘knowledge migrant’ in the Netherlands and residing at Utrechtseweg 114 1381 GT Weesp, the Netherlands; hereinafter referred to as the “Employee”.

1. Function, working hours and place of employment

1.1 Function

1.1.1 Employee will be employed by Employer in the function of Vice President and General Manager International

1.1.2 This employment agreement (the “Agreement”) is effective as of the 1st of October 2011 and replaces any and all existing compensation arrangements.

1.1.3 The employment activities of employee comprise of all activities, which are generally carried out by a Vice President and General Manager International and which Employer reasonably may instruct Employee to carry out and which activities relate to the enterprise of the Employer.

1.1.4 The activities mentioned in article 1.1.2 of this Agreement shall include, but not be limited to:

- Oversees and directs all sales and marketing activities for the EMEA, Canada, South America and Asian markets.
- Establishes sales and marketing strategies, goals and objectives for same markets
- Reports to President and CEO of AtriCure, Inc.
- Supervises sales, marketing and clinical staff based in Europe, Canada, South America and Asia; typically comprised of sales, marketing and clinical professionals
- Responsible for hiring, performance management, and development of staff
- Oversees and maintains relationships with distributors and customers thereof
- Oversees and plans professional education events and symposia within appropriate and related compliance guidelines
- Participates as colleague with U.S. based counterparts and colleagues

1.1.5 Employee shall carry out her employment activities to the best of her ability and shall follow the instructions which will be given to her by or on behalf of the Employer.

1.2 Working hours

1.2.1 Employee shall in principle carry out her employment activities during general business hours, which in principle result in forty (40) working hours per week on Mondays thru Fridays.

1.2.2 During working hours Employee shall dedicate all of her time to activities concerning AtriCure Europe BV

1.2.3 Employee is aware of the fact that her function may include irregular working times outside of the general business hours including weekends and that more than 50% of her working hours may comprise traveling.

1.3 Place of Employment

Employee shall exercise her employment at the offices of Employer in The Hague or at such other location as the employer may relocate to (i.e. Amsterdam) within 75 kilometers of the current employment address.

2. Probation, Term, Termination

2.1 Term

This Agreement is entered into for an indefinite term.

2.2 Termination

2.2.1 Subject to a termination period, each Party to this Agreement may cancel this Agreement. The termination period is two (2) months for the Employer and one (1) month for the Employee. Termination is only possible as per the end of the month and should be in writing.

3. Remuneration, Allowances

3.1 Remuneration

3.1.1 The annual base salary of Employee amounts to EUR 181,900 gross to include 8% holiday allowance.

3.1.2 The salary of Employee is deemed to include a reasonable remuneration for overtime work. Consequently, Employee shall therefore not be entitled to additional salary or remuneration for carrying out overtime work.

3.2 Bonus

3.2.1 Employee may qualify for an annual target bonus in addition to her remuneration included in article 3.1 of this Agreement. This bonus amounts to EUR 27,500 per quarter on achievement of the sales objectives which will be included in a separate document for each respective quarter.

3.2.2 If the pertinent objectives are met by Employee, then the payment of the bonus shall occur prior to the end of the month following the quarter for which the criteria are met.

3.2.3 During the first and last year of employment, the bonus will be paid through the most recently completed quarter that the Employee was employed.

3.3 Allowances

3.3.1 The holiday allowance amounts to 8% of the annual gross salary as mentioned in article 3.1.1 (and is included in the base salary.) The holiday allowance equal to 8% of the gross salary (gross salary = annual base salary of 181900 Euro / 12.96 x 12) will be paid annually in monthly arrears or in the month of May for the period 1st of June of the previous calendar year to 1st of June of the current calendar year. Should the Employee not have worked a full year for which holiday allowance is due, the holiday allowance will be paid in proportion to the time worked by the Employee during that specific year.

4. Expense reimbursements

4.1 General

Employer shall only reimburse to Employee those expenses paid by the Employee and which directly relate to the exercise of the function Employee has with Employer under this Agreement.

4.2 Out of pocket expenses

Employer shall reimburse reasonable and prudent out of pocket expenses, after having received from Employee the receipts of those expenses.

4.3 Travel, lodging, meals

Employer shall reimburse travel expenses and expenses of lodging and meals incurred by Employee after Employer receives from Employee expense statements accompanied by receipts of the expenses made.

5. Car allowance

5.1 Car Allowance

5.1.1 In addition to the remuneration included in article 3.1, Employee will receive from Employer a car allowance of EUR 1000 (one thousand Euros) gross per month for purposes of exercising the function Employee has with Employer under this Agreement. Additionally, Employer will reimburse Employee for gas related to business use of vehicle upon Employee submission of receipts.

5.1.2 The amount of the car allowance may be amended by Employer from time to time. The car allowance may be subject to tax, social security contributions or other levies in the Employee's country of tax residence. All these levies are for the account of Employee, the car allowance is therefore a gross payment.

5.2 Penalties

Penalties and other criminal and/or administrative sanctions issued to Employee when driving a vehicle during the exercise of his employment with Employer are for the risk and account of Employee and shall be claimed back from Employee or shall not be reimbursed to Employee, as the case may be.

6. Vacation

6.1 Number of vacation days

Employee is entitled to 27 vacation days per calendar year (or a pro rata part thereof if the Agreement was not in force during the full calendar year). Official national holidays in The Netherlands are excluded, so that they will add to the afore-mentioned number of vacation days.

6.2 Use of vacation days

Employee may only take a vacation day following approval of Employer. Employer will respond to a request of Employee to take a holiday within two (2) weeks following the receipt of the request. Such request shall be submitted by Employee to Employer in writing.

7. Illness, disability

7.1 Requirement of notification and treatment

In case of illness or any other form of disability, as a result of which Employee is not capable of exercising her employment, Employee is required to notify Employer thereof on the first day of Employee's disability prior to 10:00 (ten o'clock a.m.). This notification includes the nursing address if this address differs from the Employee's residency address known to the Employer. In case of illness, Employee shall immediately contact a physician and shall take all steps required to regain her good health as soon as possible.

7.2 Payment of salary, deduction of illness allowances

7.2.1 In case of disability, Employer shall, pursuant to article 7:629 of the Netherlands civil code, continue to pay the Employee the pro rata remuneration in accordance with article 3 of this Agreement:

a. During the first 12 weeks: 100% of the remuneration that Employee would be entitled to in the absence of disability.

b. During the following 40 weeks of disability: 70% of the remuneration that Employee would be entitled to in the absence of disability.

c. For the following 52 weeks of disability: 70% of the remuneration that Employee would be entitled to in the absence of disability.

7.2.2 Any benefits to be received by the Employee under the applicable social security laws and/or benefits under any other relevant insurance policies taken out by the Employer shall be deducted from the remuneration paid by Employer in accordance with this article 7.2. The Employee shall inform Employer about the term and amount of such payment and Employee shall take all necessary steps, or shall arrange that all necessary steps will be taken, to enforce the rights on these payments in order to minimize the remuneration payment obligation of Employer.

7.3 Disability regulations, sanctions, assignment

7.3.1 The Employee must strictly comply with the guidelines and instructions which have been or will be given by or on behalf of the Employer regarding any disability. In case the Employee does not follow the regulations applicable in case of disability (including, but not limited to, regulations of re-integration), Employer may impose sanctions and may defer its obligation to continue the payment of salary until Employee meets the pertinent regulations in accordance with Section 7:629 of the Netherlands civil code.

7.3.2 In case the disability of Employee is caused by an accident as a result of which due to third party liability Employee may enforce certain rights, then Employee shall cooperate with the assignment of these rights to Employer.

8. Health insurance

Employee will agree a health care insurance with a Dutch health care insurer that is substantially equivalent to that of coverage for a comparable position in a comparable company in the Netherlands whereby employee will pay the rate equivalent to the cost sharing rate of United States based AtriCure, Inc. executives (currently 21.3 %) of the applicable insurance premium.

9. Pension

The Employer will make an offer to the Employee to enter into a pension contract. The costs of this pension contract will be equivalent to 2/3 employer contribution and 1/3 employee contribution.

10. Confidentiality

10.1 Any confidential information acquired by Employee from Employer including but not limited to existing or contemplated equipment, products, processes, techniques, designs, trade secrets, ideas, markets, customers, financial information or any information or data developed by Employer or companies affiliated to Employer or developed by Employee pursuant to the performance of the employment activities by Employee under this Agreement shall not be disclosed by Employee to others or used for Employee's own benefit without the prior written consent of Employer.

10.1.1 Confidential Information shall not include:

- information which is or becomes, through no fault of Employee, generally known to the public; or
- information received on a non-confidential basis from a source other than Employer;

10.1.2 Employee shall keep the content of this Agreement confidential.

10.1.3 In this article 10.1.4 the term "Employer" includes companies affiliated to Employer, including, but not limited to the parent company of Employer, AtriCure Inc.

10.1.4 Any property, inventions, ideas acquired by Employee from Employer including but not limited to existing or contemplated equipment, products, processes, techniques, designs, trade secrets, ideas, markets, customers, financial information or any information or data developed by Employer are the property of Employer.

10.1.5 Any inventions or ideas relating to medical devices, made or conceived by Employee in connection with or during the performance of employment activities for Employer, shall be the property of Employer.

10.1.6 Upon termination of this Agreement, Employee will return to Employer all records, data, notes, reports and other documents or property furnished by Employer or developed pursuant to the relationship hereunder.

11. Prohibition other activities and solicitation, non-competition

11.1 Prohibition to carry out other activities

In the absence of prior written approval from Employer, which the Employer may grant with our without conditions, Employee shall not in its own name, by way of a cooperation with other individuals or legal entities and/or under another employment agreement carry out employment activities, a profession or a business in any form or way whatsoever.

11.2 Solicitation

During her employment with the Employer and for a period of twelve (12) months thereafter, the Employee shall not, either directly or indirectly in connection with others,

(a) Solicit or attempt to Solicit for employment any employee of the Employer, hire any such person or induce any such person to leave the employ of his/her Employer;

(b) Solicit or attempt to Solicit the business of any client or customer of the Employer (other than on behalf of the Employer) for purposes of any aspect of a Restricted Business; or

(c) interfere with or damage (or attempt to interfere or damage) any relationship between the Employer and a client, customer or independent contractor.

In this article 11.2 the terms:

(i) "Solicit" shall mean any direct or indirect communication of any kind whatsoever, regardless of by whom initiated, inviting, advising, encouraging or requesting any person or entity, in any manner, to take or refrain from taking any action: and

(ii) "Restricted Business" shall mean the design, development, manufacture, distribution, marketing or promotion of medical services designed or used to diagnose, treat or prevent atrial fibrillation, cardiovascular disease or related complications (including stroke), or any other type of medical device that the Company designs, develops, manufactures, distributes, markets or promotes from time to time.

11.3 Non-competition

11.3.1 During her employment with the Employer and for a period of twelve (12) months thereafter, the Employee shall not without the Employer's prior written consent, either directly or indirectly engage in (whether as an employee, consultant, proprietor, partner, director or otherwise), or participate in the operation, management or control of, any operations of any person, firm, corporation or business that relate in any way to the operation, acquisition or development of any aspect of atrial fibrillation treatment or left atrial appendage exclusion/stroke reduction.

11.3.2 Otherwise, for a period of six (6) months thereafter, the Employee shall not without the Employer's prior written consent, either directly or indirectly engage in (whether as an employee, consultant, proprietor, partner, director or otherwise), or participate

in the operation, management or control of, any operations of any person, firm, corporation or business that relate in any way to the operation, acquisition or development of treatment for cardiovascular disease or related complications (including stroke), or any other type of medical device that the Company designs, develops, manufactures, distributes, markets or promotes from time to time.

12. Breach of confidentiality and/or non competition

12.1 In the event that the Employee commits any breach of clauses 10.1.1 and/or 11 of this Agreement she shall, in variance from the provisions of Section 7:650 subsections 3, 4 and 5 of the Dutch Civil Code, forfeit to the Employer an immediately payable penalty of EUR 10,000 for each breach of this Clause, to be increased by EUR 1,000 for each day that such breach continues, without prior notice or judicial intervention being required and entirely without prejudice to the Employer's right to demand full compensation for the loss actually suffered by it and/or to demand specific performance instead of the aforesaid penalty.

12.2 Payment of the penalty referred to in this clause shall not release the Employee from her obligations specified in this Agreement.

13. Amendments

Employer is entitled to unilaterally amend the regulations included in the articles of this Agreement taking into account article 7:613 of the Netherlands Civil Code or taking into account the rules of reasonableness and fairness ("redelijkheid en billijkheid") of article 7:611 Netherlands Civil Code.

Various

13.1 Changes in relevant information

Employee is obliged to inform Employer immediately about changes in her marital status, residency address and other information regarding Employee relevant to the Employer.

13.2 Employee file

Upon entering into this Agreement, Employee shall handover to Employer her (valid) passport so that Employer is able to make copies for purposes of the Employee file. This also applies to a residency permit.

13.3 Previous agreements

The terms and conditions set forth in this Agreement shall supersede any and all prior or contemporaneous written or oral agreements regarding the employment by Employer of Employee.

Initials Employer: Initials Employee:

13.4 Amendments

This Agreement may be changed, modified or amended by a written agreement signed by both parties expressly referring to this Agreement and stating that it changes, modifies or amends the Agreement or portions thereof.

13.5 Notifications in writing

The content of notifications in writing in whatever form by Employer to Employee are deemed known to Employee. Employee is obliged to take notice of any relevant internal and external information provided by Employer.

13.6 Nullity

If any provision in this Agreement shall be held to be void or unenforceable, in whole or part, under any enactment or rule of law, such provision or part thereof shall to that extend be deemed not to form part of this Agreement, but all other shall be in full force and effect.

13.7 Governing Law

The meaning, performance and legal effect of this Agreement and any legal issue relating to this Agreement and each and every provision incorporated in this Agreement or further agreements resulting from this Agreement shall be construed, enforced and determined solely and exclusively in accordance with the laws of The Netherlands, with the exclusion of any foreign law or international conventions to the extend not mandatory applicable to this Agreement.

13.8 Jurisdiction

Employee hereby irrevocably and exclusively submits to the jurisdiction of the District Court of The Hague, The Netherlands, in first instance, for the determination of all disputes, controversies, claims and all other issues arising out of the formation, performance, interpretation, nullification, termination, invalidation or modification of this Agreement or in connection with this Agreement or further agreements resulting thereof, suits or proceedings arising out of or relating to this Agreement.

Initials Employer: Initials Employee:

AGREED AND SIGNED in 2 (two) originals by duly authorized signatories of the Parties:

AtriCure Europe B.V.	Ms. Patricia Kennedy
Represented by: /s/ Julie A. Piton	/s/ Patricia Kennedy
Initials Employer:	Initials Employee:

Exhibit 31.1

CERTIFICATION OF CHIEF 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, David J. Drachman, 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: November 4, 2011

By: /s/ David J. Drachman
David J. Drachman
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF 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, Julie A. Piton, 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: November 4, 2011

By: /s/ Julie A. Piton
Julie A. Piton
Vice President, Finance and Administration and
Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 32.1

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 September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Drachman, President and Chief 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: November 4, 2011

By: /s/ David J. Drachman
David J. Drachman
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.

Exhibit 32.2

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 September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Julie A. Piton, Vice President and Chief 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: November 4, 2011

By: /s/ Julie A. Piton
Julie A. Piton
Vice President, Finance and Administration 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.