

**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 **June 30, 2019**

or

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

For the transition period from _____ to _____

Commission File Number **000-51470**

AtriCure, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

34-1940305
(IRS Employer
Identification No.)

7555 Innovation Way
Mason, OH 45040
(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.001 par value	ATRC	NASDAQ

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 every Interactive Data File required to be submitted 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 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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act:

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

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

<u>Class</u>	<u>Outstanding at July 29, 2019</u>
Common Stock, \$.001 par value	38,782,448

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

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,247	\$ 32,231
Short-term investments	65,594	92,171
Accounts receivable, less allowance for doubtful accounts of \$618 and \$547	27,955	25,195
Inventories	24,432	22,484
Prepaid and other current assets	3,297	2,592
Total current assets	146,525	174,673
Property and equipment, net	28,095	27,080
Operating lease right-of-use assets	1,624	—
Long-term investments	12,860	—
Intangible assets, net	48,286	49,254
Goodwill	105,257	105,257
Other noncurrent assets	473	495
Total Assets	<u>\$ 343,120</u>	<u>\$ 356,759</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 12,592	\$ 9,659
Accrued liabilities	19,885	25,840
Other current liabilities and current maturities of leases and long-term debt	6,955	4,717
Total current liabilities	39,432	40,216
Finance lease liabilities	11,834	12,172
Long-term debt	33,886	35,571
Operating lease liabilities	1,150	—
Other noncurrent liabilities	15,270	19,419
Total Liabilities	101,572	107,378
Commitments and contingencies (Note 8)		
Stockholders' Equity:		
Common stock, \$0.001 par value, 90,000 shares authorized and 38,766 and 38,604 issued and outstanding	39	39
Additional paid-in capital	498,402	496,544
Accumulated other comprehensive loss	(154)	(199)
Accumulated deficit	(256,739)	(247,003)
Total Stockholders' Equity	<u>241,548</u>	<u>249,381</u>
Total Liabilities and Stockholders' Equity	<u>\$ 343,120</u>	<u>\$ 356,759</u>

See accompanying notes to condensed consolidated financial statements.

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ATRICURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 58,906	\$ 51,802	\$ 112,872	\$ 98,796
Cost of revenue	15,013	13,723	29,108	26,214
Gross profit	43,893	38,079	83,764	72,582
Operating expenses:				
Research and development expenses	9,804	8,655	17,980	17,712
Selling, general and administrative expenses	37,928	28,466	74,943	63,342
Total operating expenses	47,732	37,121	92,923	81,054
Income (loss) from operations	(3,839)	958	(9,159)	(8,472)
Other income (expense):				
Interest expense	(879)	(1,221)	(1,741)	(2,041)
Interest income	636	123	1,356	199
Other	(9)	(150)	(116)	(62)
Loss before income tax expense	(4,091)	(290)	(9,660)	(10,376)
Income tax expense	10	48	76	96
Net loss	\$ (4,101)	\$ (338)	\$ (9,736)	\$ (10,472)
Basic and diluted net loss per share	\$ (0.11)	\$ (0.01)	\$ (0.26)	\$ (0.32)
Weighted average shares outstanding—basic and diluted	37,334	33,252	37,156	33,117
Comprehensive loss:				
Unrealized gain (loss) on investments	\$ 17	\$ 1	\$ 83	\$ (7)
Foreign currency translation adjustment	115	(211)	(38)	(125)
Other comprehensive (loss) income	132	(210)	45	(132)
Net loss	(4,101)	(338)	(9,736)	(10,472)
Comprehensive loss, net of tax	\$ (3,969)	\$ (548)	\$ (9,691)	\$ (10,604)

See accompanying notes to condensed consolidated financial statements.

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ATRICURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands)
(Unaudited)

	Three-Month Period Ended June 30, 2018					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance—March 31, 2018	35,039	\$ 35	\$ 388,976	\$ (236,000)	\$ 112	\$ 153,123
Issuance of common stock under equity incentive plans	185	—	2,182	—	—	2,182
Issuance of common stock under employee stock purchase plan	89	—	1,396	—	—	1,396
Share-based employee compensation expense	—	—	3,534	—	—	3,534
Other comprehensive loss	—	—	—	—	(210)	(210)
Net loss	—	—	—	(338)	—	(338)
Balance—June 30, 2018	35,313	\$ 35	\$ 396,088	\$ (236,338)	\$ (98)	\$ 159,687
	Three-Month Period Ended June 30, 2019					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance—March 31, 2019	38,658	\$ 39	\$ 492,177	\$ (252,638)	\$ (286)	\$ 239,292
Issuance of common stock under equity incentive plans	47	—	301	—	—	301
Issuance of common stock under employee stock purchase plan	61	—	1,549	—	—	1,549
Share-based employee compensation expense	—	—	4,375	—	—	4,375
Other comprehensive income	—	—	—	—	132	132
Net loss	—	—	—	(4,101)	—	(4,101)
Balance—June 30, 2019	38,766	\$ 39	\$ 498,402	\$ (256,739)	\$ (154)	\$ 241,548

See accompanying notes to condensed consolidated financial statements.

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ATRICURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands)
(Unaudited)

	Six-Month Period Ended June 30, 2018					
	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit	Income (Loss)	Equity
Balance—December 31, 2017	34,586	\$ 35	\$ 386,963	\$ (225,866)	\$ 34	\$ 161,166
Issuance of common stock under equity incentive plans	638	—	305	—	—	305
Issuance of common stock under employee stock purchase plan	89	—	1,396	—	—	1,396
Share-based employee compensation expense	—	—	7,424	—	—	7,424
Other comprehensive loss	—	—	—	—	(132)	(132)
Net loss	—	—	—	(10,472)	—	(10,472)
Balance—June 30, 2018	35,313	\$ 35	\$ 396,088	\$ (236,338)	\$ (98)	\$ 159,687

	Six-Month Period Ended June 30, 2019					
	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit	Income (Loss)	Equity
Balance—December 31, 2018	38,604	\$ 39	\$ 496,544	\$ (247,003)	\$ (199)	\$ 249,381
Issuance of common stock under equity incentive plans	101	—	(8,220)	—	—	(8,220)
Issuance of common stock under employee stock purchase plan	61	—	1,549	—	—	1,549
Share-based employee compensation expense	—	—	8,529	—	—	8,529
Other comprehensive income	—	—	—	—	45	45
Net loss	—	—	—	(9,736)	—	(9,736)
Balance—June 30, 2019	38,766	\$ 39	\$ 498,402	\$ (256,739)	\$ (154)	\$ 241,548

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (9,736)	\$ (10,472)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	8,529	7,424
Depreciation	3,622	3,719
Amortization of intangible assets	968	684
Amortization of deferred financing costs	109	217
Non-cash lease expense	234	—
Loss on disposal of property and equipment	332	97
Realized loss from foreign exchange on intercompany transactions	102	56
Accretion of investments	(735)	(56)
Change in allowance for doubtful accounts	68	58
Change in value of contingent consideration	(3,872)	(5,916)
Changes in operating assets and liabilities:		
Accounts receivable	(2,859)	(1,946)
Inventories	(1,966)	703
Other current assets	(710)	(877)
Accounts payable	2,407	(2,432)
Accrued liabilities	(5,845)	(1,697)
Other noncurrent assets and liabilities	(340)	69
Net cash used in operating activities	(9,692)	(10,369)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(31,627)	(23,510)
Sales and maturities of available-for-sale securities	46,162	13,000
Purchases of property and equipment	(4,456)	(3,473)
Proceeds from sale of property and equipment	8	6
Net cash provided by (used in) investing activities	10,087	(13,977)
Cash flows from financing activities:		

Proceeds from debt borrowings	—	17,381
Payments on debt and leases	(303)	(1,469)
Payments of debt fees	(300)	(1,136)
Proceeds from stock option exercises and employee stock purchase plan	2,024	5,425
Shares repurchased for payment of taxes on stock awards	(8,695)	(3,724)
Net cash (used in) provided by financing activities	(7,274)	16,477
Effect of exchange rate changes on cash and cash equivalents	(105)	(74)
Net decrease in cash and cash equivalents	(6,984)	(7,943)
Cash and cash equivalents—beginning of period	32,231	21,809
Cash and cash equivalents—end of period	\$ 25,247	\$ 13,866
Supplemental cash flow information:		
Cash paid for interest	\$ 1,746	\$ 1,210
Cash paid for income taxes	185	45
Non-cash investing and financing activities:		
Accrued purchases of property and equipment	877	366
Assets obtained in exchange for finance lease obligations	—	24
Finance lease early termination	—	(6)

See accompanying notes to condensed consolidated financial statements.

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

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business—The “Company” or “AtriCure” consists of AtriCure, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company is a leading innovator in treatments for atrial fibrillation (Afib) and left atrial appendage (LAA) management and sells its products to medical centers globally through its direct sales force and distributors.

Basis of Presentation—The accompanying interim financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying interim financial statements are unaudited, but in the opinion of the Company’s management, contain all normal, recurring adjustments considered necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to interim periods. Certain information and footnote disclosures included in annual financial statements prepared in accordance with GAAP have been omitted or condensed. The Company believes the disclosures herein are adequate to make the information presented not misleading. Results of operations are not necessarily indicative of the results expected for the full 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, 2018 filed with the SEC.

Cash and Cash Equivalents—The Company considers highly liquid investments with maturities of three months or less at the date of purchase as cash equivalents. Cash equivalents include demand deposits, money market funds and repurchase agreements on deposit with certain financial institutions.

Investments—The Company invests primarily in U.S. government agencies and securities, corporate bonds, commercial paper and asset-backed securities and classifies all investments as available-for-sale. Investments with maturities of less than one year are classified as short-term investments. Investments are recorded at fair value, with unrealized gains and losses recorded as accumulated other comprehensive income. Gains and losses are recognized using the specific identification method when securities are sold and are included in interest income.

Revenue Recognition—The Company recognizes revenue when control of promised goods is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods. This generally occurs upon shipment of goods to customers. See Note 9 for further discussion on revenue.

Sales Returns and Allowances—The Company maintains a provision for potential returns of defective or damaged products, products shipped in error and invoice adjustments. The Company adjusts the provision using the expected value method based on historical experience. Increases to the provision reduce revenue, and the provision is included in accrued liabilities.

Allowance for Doubtful Accounts—The Company evaluates the collectability of accounts receivable 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 selling, general and administrative expenses. The Company reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables against the allowance when all attempts to collect the receivable have failed. The Company’s history of write-offs has not been significant.

Inventories—Inventories are stated at the lower of cost or net realizable value based on the first-in, first-out cost method (FIFO) and consist of raw materials, work in process and finished goods. The Company’s industry is characterized by rapid product development and frequent new product introductions. Uncertain timing of product approvals, variability in product launch strategies and variation in product use all impact inventory reserves for excess, obsolete and expired products. An increase to inventory reserves results in a corresponding increase in cost of revenue. Inventories are written off against the reserve when they are physically disposed.

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(In Thousands, except per share amounts)
(Unaudited)

Inventories consist of the following:

	June 30, 2019	December 31, 2018
Raw materials	\$ 10,013	\$ 9,100
Work in process	1,849	1,232
Finished goods	12,570	12,152
Inventories	<u>\$ 24,432</u>	<u>\$ 22,484</u>

Property and Equipment—Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of assets. The estimated useful life by major asset category is the following:

	Estimated Useful Life
Generators and related equipment	1 - 3 years
Building under finance lease	15 years
Computers, software and office equipment	3 years
Machinery and equipment	3 - 7 years
Furniture and fixtures	3 - 7 years
Leasehold improvements	5 - 15 years
Equipment under finance leases	3 - 5 years

The Company assesses the useful lives of property and equipment at least annually and retires assets once they are no longer in service. Maintenance and repair costs are expensed as incurred. The Company reviews property and equipment for impairment at least annually using its best estimates based on reasonable and supportable assumptions and expected future cash flows. Property and equipment impairments recorded by the Company have not been significant.

The Company's radiofrequency (RF) and cryo generators are generally placed with customers that purchase the Company's disposable products. The estimated useful lives of generators are based on anticipated usage by customers and may change in future periods with changes in usage or introduction of new technologies. Depreciation related to generators and related equipment, which is recorded in cost of revenue, was \$749 and \$814 for the three months ended June 30, 2019 and 2018 and \$1,485 and \$1,641 for the six months ended June 30, 2019 and June 30, 2018. As of June 30, 2019 and December 31, 2018, the net carrying value of generators and related equipment included in net property and equipment was \$4,867 and \$4,545.

Leases—As of January 1, 2019, the Company determines if an arrangement is a lease at inception. The Company applies the short-term lease recognition exemption and recognizes lease payments in profit or loss for facility leases that have a lease term of 12 months or less at commencement and do not include a purchase option whose exercise is reasonably certain. Operating leases are included in operating lease right-of-use (ROU) assets, operating lease liabilities and other current liabilities and current maturities of leases and long-term debt. Finance leases are included in property and equipment, other current liabilities and current maturities of leases and long-term debt, and finance lease liabilities.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are measured and recorded at the later of the application date and commencement date based on the present value of lease payments over the lease term. The Company uses the implicit rate when readily determinable; however, most of the leases do not provide an implicit rate and therefore, the Company uses its incremental borrowing rate based on information available at measurement. The operating ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. For real estate and equipment leases, the Company accounts for the lease and non-lease components as a single lease component. Additionally, the portfolio approach is applied to effectively account for the operating lease ROU assets and liabilities based on the term of the underlying lease. Lease expense for lease payments is recognized on a straight-line basis over the lease term. See Note 7 for further discussion of leases.

Intangible Assets—Intangible assets with determinable useful lives are amortized on a straight-line basis over the estimated periods benefited. Intangible assets include In Process Research and Development (IPR&D), which represents the value of technology acquired in business combinations that has not yet reached technological feasibility. The primary basis for determining technological feasibility is obtaining specific regulatory approval. IPR&D is accounted for as an indefinite-lived intangible asset until completion or abandonment of the IPR&D project. Upon completion of the development project, IPR&D will be amortized over its estimated useful

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, except per share amounts)
(Unaudited)

life. If the IPR&D project is abandoned, the IPR&D would be written off. IPR&D represents an estimate of the fair value of the pre-market approval (PMA) that could result from the CONVERGE IDE clinical trial.

The Company reviews intangible assets at least annually for impairment using its best estimates based on reasonable and supportable assumptions and projections. The Company performs impairment testing annually on October 1.

Goodwill—Goodwill represents the excess of purchase price over the fair value of the net assets acquired in business combinations. The Company’s goodwill is accounted for in a single reporting unit representing the Company as a whole. The Company performs impairment testing annually on October 1.

Other Noncurrent Liabilities—Other noncurrent liabilities primarily consist of acquisition-related contingent consideration. The balance is included in noncurrent liabilities as such settlement is both required and expected to be made in shares of the Company’s common stock pursuant to the nContact Surgical, Inc. (nContact) merger agreement.

Other Income (Expense)—Other income (expense) consists primarily of foreign currency transaction gains and losses generated by settlements of intercompany balances denominated in Euros and customer invoices transacted in British Pounds.

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

The Company’s estimate of the valuation allowance for deferred income tax assets requires significant estimates and judgments about future operating results. Deferred income tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more-likely-than-not that the deferred income tax asset will not be realized. Significant weight is given to evidence that can be objectively verified. The Company evaluates deferred income tax assets on an annual basis to determine if valuation allowances are required. Deferred income tax assets are realized by having sufficient future taxable income to allow the related tax benefits to reduce taxes otherwise payable. The sources of taxable income that may be available to realize the benefit of deferred income tax assets are future reversals of existing taxable temporary differences, future taxable income, exclusive of reversing temporary differences and carryforwards and tax planning strategies that are both prudent and feasible. In evaluating the need for a valuation allowance, the existence of cumulative losses in recent years is significant objectively verifiable negative evidence that must be overcome by objectively verifiable positive evidence to avoid the need to record a valuation allowance. The Company has recorded a full valuation allowance against substantially all net deferred income tax assets as it is more-likely-than-not that the benefit of the deferred income tax assets will not be recognized in future periods. The Tax Cut and Jobs Act (Tax Reform Act) provides companies with the ability to elect to reclassify the income tax effects of the Tax Reform Act on items within accumulated other comprehensive income (loss) to retained earnings. The Company has not made this election due to its full valuation allowance.

Net Loss Per Share—Basic and diluted net loss per share is computed 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 anti-dilutive effect of 3,592 and 4,063 stock options, restricted stock shares, restricted stock units and performance award shares as of June 30, 2019 and 2018. Therefore, the number of shares calculated for basic net loss per share is also used for the diluted net loss per share calculation.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total accumulated other comprehensive (loss) income at beginning of period	\$ (286)	\$ 112	\$ (199)	\$ 34
<u>Unrealized Gains (Losses) on Investments</u>				
Balance at beginning of period	\$ 29	\$ (14)	\$ (37)	\$ (6)
Other comprehensive income (loss) before reclassifications	17	1	83	(7)
Amounts reclassified from accumulated other comprehensive income (loss) to other income (loss)	—	—	—	—
Balance at end of period	\$ 46	\$ (13)	\$ 46	\$ (13)
<u>Foreign Currency Translation Adjustment</u>				
Balance at beginning of period	\$ (315)	\$ 126	\$ (162)	\$ 40
Other comprehensive income (loss) before reclassifications	85	(349)	(140)	(181)
Amounts reclassified from accumulated other comprehensive (loss) income to other income (loss)	30	138	102	56
Balance at end of period	\$ (200)	\$ (85)	\$ (200)	\$ (85)
Total accumulated other comprehensive loss at end of period	<u>\$ (154)</u>	<u>\$ (98)</u>	<u>\$ (154)</u>	<u>\$ (98)</u>

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

Advertising Costs—The Company expenses advertising costs as incurred. Advertising costs were not significant during the three and six months ended June 30, 2019 and 2018.

Share-Based Compensation—The Company records share-based compensation for all employee share-based payment awards, including stock options, restricted stock awards, restricted stock units, performance shares and stock purchases related to an employee stock purchase plan, based on estimated fair

values. The value of the portion of an award that is ultimately expected to vest, net of estimated forfeitures, is recognized as expense over the service period. The Company estimates forfeitures at the time of grant and adjusts them in subsequent periods as actual forfeitures differ from those estimates. The Company recognized share-based compensation expense of \$4,375 and \$3,534 for the three months ended June 30, 2019 and 2018 and \$8,529 and \$7,424 for the six months ended June 30, 2019 and 2018.

The Company estimates the fair value of time-based options on the date of grant using the Black-Scholes option-pricing model (Black-Scholes model). Fair value is affected by the Company's stock price, as well as subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. The Company estimates the fair value of restricted stock awards and restricted stock units based upon the grant date closing market price of the Company's common stock. The Company estimates the fair value of the performance share awards based on the grant date closing market price of the Company's common stock and will adjust compensation expense over the performance period based on its estimate of performance target achievement.

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

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, 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.

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2. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, "Leases" (ASU 2016-02), codified as ASC 842, which requires lessees to record most leases onto their balance sheet but recognize expenses on their income statement in a manner similar to legacy lease guidance of ASC 840 "Leases". The Company adopted the new guidance on January 1, 2019 using the transition method provided by ASU 2018-11, "Leases (Topic 842): Targeted Improvements". Under this method, the Company has applied the new requirements to those leases that exist as of January 1, 2019, rather than at the earliest comparative period presented in the financial statements. Prior periods are presented under legacy ASC 840 lease guidance. Upon transition, the Company has applied the package of practical expedients permitted under ASC 842 transition guidance. As a result, the Company is not required to reassess (1) whether expired or existing contracts contain leases under the new definition of a lease, including whether an existing or expired contract contains an embedded lease, (2) lease classification for expired or existing leases and (3) any initial direct costs of existing leases. The Company has applied the short-term lease recognition exemption and recognizes lease payments in profit or loss for leases that have a lease term of 12 months or less at commencement and do not include a renewal option whose exercise is reasonably certain. There was no cumulative effect on beginning accumulated deficit as a result of adoption. See Note 7 for further details.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment" (ASU 2017-04). The guidance removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Under ASU 2017-04, a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance becomes effective for annual reporting periods beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption permitted, and applied prospectively. The Company is evaluating the provisions of ASU 2017-04 to determine the impact on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement" (ASU 2018-13). The amendments modify the disclosure requirements for fair value measurements and are effective for all entities for interim and annual reporting periods beginning in 2020. Early adoption of either the entire standard or only the provisions that eliminate or modify the requirements is permitted. The Company is evaluating the provisions of ASU 2018-13 to determine the impact on its fair value measurement disclosures.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" (ASU 2018-15). The provisions of this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Entities should apply the guidance in ASC 350-40 on internal-use software when capitalizing implementation costs related to a hosting arrangement that is a service contract and expense the capitalized implementation costs related to a hosting arrangement that is a service contract over the hosting arrangement's term, presenting the expense in the same line item in the statement of operations as that in which the fee associated with the hosting arrangement is presented. The provisions are effective for all entities for interim and annual reporting periods beginning in 2020. Early adoption is permitted, and entities have the option of applying either a retrospective or prospective transition method. The Company is evaluating the provisions of ASU 2018-15 to determine the impact on its consolidated financial statements and related disclosures.

3. FAIR VALUE

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is 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:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- 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.

- 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.

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The Company classifies cash and investments in U.S. government agencies and securities, accounts receivable, short-term other assets, accounts payable and accrued liabilities as Level 1 within the fair value hierarchy. The carrying amounts of these assets and liabilities approximate their fair value due to their relatively short-term nature. Cash equivalents and investments in corporate bonds, commercial paper and asset-backed securities are classified as Level 2 within the fair value hierarchy. The fair value of fixed term debt is estimated by calculating the net present value of future debt payments at current market interest rates and is classified as Level 2. The book value of the Company's fixed term debt approximates its fair value because the interest rate varies with market rates.

The following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

	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	\$ —	\$ 1,276	\$ —	\$ 1,276
Repurchase agreements	—	10,002	—	10,002
Commercial paper	—	28,634	—	28,634
U.S. government agencies and securities	4,474	—	—	4,474
Corporate bonds	—	27,297	—	27,297
Asset-backed securities	—	18,049	—	18,049
Total assets	<u>\$ 4,474</u>	<u>\$ 85,258</u>	<u>\$ —</u>	<u>\$ 89,732</u>
Liabilities:				
Acquisition-related contingent consideration	—	—	14,901	14,901
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,901</u>	<u>\$ 14,901</u>

There were no changes in the levels or methodology of measurement of financial assets and liabilities during the three and six months ended June 30, 2019.

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, 2018:

	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	\$ —	\$ 16,193	\$ —	\$ 16,193
Commercial paper	—	40,731	—	40,731
U.S. government agencies and securities	6,734	—	—	6,734
Corporate bonds	—	30,195	—	30,195
Asset-backed securities	—	14,511	—	14,511
Total assets	<u>\$ 6,734</u>	<u>\$ 101,630</u>	<u>\$ —</u>	<u>\$ 108,364</u>
Liabilities:				
Acquisition-related contingent consideration	—	—	18,773	18,773
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 18,773</u>	<u>\$ 18,773</u>

Acquisition-Related Contingent Consideration. Contingent consideration arrangements under the nContact merger agreement obligate the Company to pay certain defined amounts to former shareholders of nContact if specified milestones are met related to trial enrollment, regulatory approval and revenue targets. The Company measures contingent consideration liabilities using unobservable inputs by applying an income approach, such as the discounted cash flow technique or the probability-weighted scenario method. Various key assumptions, such as the probability of achievement of the agreed milestones, projected revenues from acquisitions and the discount rate, are used in the determination of fair value of contingent consideration arrangements and are not observable in the market, thus representing a Level 3 measurement within the fair value hierarchy. Subsequent revisions to key assumptions, which impact the estimated fair value of contingent consideration liabilities, are reflected in selling, general and administrative expenses. Acquisition-related contingent consideration is recorded in other noncurrent liabilities.

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As a result of the achievement of the trial enrollment milestone in the CONVERGE IDE clinical trial, the Company made cash payments totaling approximately \$1,221 and issued and delivered 232 shares of common stock to the former shareholders of nContact on September 20, 2018. The remaining contingent consideration liability is periodically remeasured, resulting in a decrease of fair value of \$2,205 during the three months ended June 30, 2019, \$3,872 for the six months ended June 30, 2019, and \$5,916 for the three and six months ended June 30, 2018. These decreases are primarily due to reductions in forecasted revenue for the 2019 and 2018 commercial milestones and a higher discount rate in 2018 for increases in market interest rates.

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

	Six Months Ended June 30, 2019	Twelve Months Ended December 31, 2018
Beginning Balance	\$ 18,773	\$ 37,098
Settlement of trial enrollment milestone	—	(7,500)
Changes in fair value included in earnings	(3,872)	(10,825)
Ending Balance	<u>\$ 14,901</u>	<u>\$ 18,773</u>

4. INTANGIBLE ASSETS

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

	Estimated Useful Life	June 30, 2019		December 31, 2018	
		Cost	Accumulated Amortization	Cost	Accumulated Amortization
Technology	3-8 years	\$ 11,421	\$ 7,156	\$ 12,250	\$ 7,017
IPR&D		44,021	—	44,021	—
Total		<u>\$ 55,442</u>	<u>\$ 7,156</u>	<u>\$ 56,271</u>	<u>\$ 7,017</u>

Amortization expense of intangible assets with definite lives, which excludes IPR&D, was \$484 and \$342 for the three months ended June 30, 2019 and 2018 and \$968 and \$684 for the six months ended June 30, 2019 and 2018. In 2018, the Company reduced the ten-year estimated useful life of the Fusion[®] technology asset by two years based on changes in estimated periods benefited. This change in estimate resulted in additional amortization expense of \$143 in the fourth quarter of 2018 and has been applied prospectively.

Intangible assets with definite lives will be fully amortized in 2021. Future amortization expense is projected as follows:

2019 (excluding the six months ended June 30, 2019)	\$ 968
2020	1,804
2021	1,493
Total	<u>\$ 4,265</u>

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5. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	June 30, 2019	December 31, 2018
Accrued payroll and employee-related expenses	\$ 4,560	\$ 4,512
Accrued commissions	6,143	8,065
Accrued bonus	5,224	9,100
Sales returns and allowances	1,438	1,410
Accrued royalties	715	662
Accrued taxes and value-added taxes payable	807	886
Other accrued liabilities	998	1,205
Total	<u>\$ 19,885</u>	<u>\$ 25,840</u>

6. INDEBTEDNESS

Credit Facility. The Company has a Loan and Security Agreement (Loan Agreement) with Silicon Valley Bank (SVB). The Loan Agreement, as amended, restated and modified effective February 23, 2018 and as further amended on December 28, 2018, includes a \$40,000 term loan and a \$20,000 revolving line of credit, with an option to increase the revolving line of credit by up to an additional \$20,000. The term loan and revolving credit facility both mature or expire, as applicable, in February 2023.

As the Company met certain conditions as specified in the Loan Agreement, the commencement of term loan principal payments was deferred by an additional six months, commencing February 2020. The term loan accrues interest at the greater of the Prime Rate plus 0.50% or 5.00%. Financing costs related to the term loan of \$559 are netted against the outstanding loan balance and amortized ratably over the term of the Loan Agreement.

The revolving line of credit is subject to an annual facility fee of 0.33% of the revolving line of credit, and any borrowings thereunder bear interest at the greater of the Prime Rate or 4.50%. Borrowing availability under the revolving credit facility is based on the lesser of \$20,000 or a borrowing base calculation as defined by the Loan Agreement. As of June 30, 2019, the Company had no borrowings under the revolving credit facility and had borrowing availability of \$20,000. Financing costs related to the revolving line of credit are included in other assets and amortized ratably over the twelve-month period of the annual fee.

The Loan Agreement also provides for certain prepayment and early termination fees if repaid before January 2020, as well as establishes a minimum liquidity covenant and dividend restrictions, along with other customary terms and conditions. Specified assets have been pledged as collateral.

Future maturities of long-term debt are projected as follows:

2019 (excluding the six months ended June 30, 2019)	\$	—
2020		12,222
2021		13,333
2022		13,333
2023		1,112
Total long-term debt, of which \$5,555 is current and \$34,445 is noncurrent.	\$	<u>40,000</u>

7. LEASES

The Company adopted the new lease guidance on January 1, 2019 using the transition method provided by ASU 2018-11, “Leases (Topic 842): Targeted Improvements”. Under this method, the Company has applied the new requirements to leases that exist as of January 1, 2019, rather than at the earliest comparative period presented in the financial statements. Prior periods are presented under legacy ASC 840 lease guidance. As a result of the adoption, the Company recorded operating right-of-use assets and operating lease liabilities of approximately \$1,884 and \$2,189 as of January 1, 2019. The difference between the initial operating right-of-use asset and operating lease liability of \$305 is accrued rent previously recognized under ASC 840.

The Company has operating and finance leases for corporate offices, warehouse facilities and computer equipment. The Company’s leases have remaining lease terms of one year to eleven years. Options to renew or extend leases beyond their initial term

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have been excluded from measurement of the ROU assets and lease liabilities as exercise is not reasonably certain. The weighted average remaining lease term for operating leases and finance leases was 2.9 years and 11.3 years as of June 30, 2019. The weighted average discount rate used to measure the outstanding operating lease liabilities and finance lease liabilities was 5.8% and 7.2% as of June 30, 2019. In connection with the terms of the Company’s corporate headquarters lease, a letter of credit in the amount of \$1,250 was issued to the building lessor in October 2015. The letter of credit is renewed annually and remains outstanding as of June 30, 2019.

The components of lease expense were as follows:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost	\$ 159	\$ 318
Finance lease cost:		
Amortization of right-of-use assets	250	500
Interest on lease liabilities	219	440
Total finance lease cost	<u>\$ 469</u>	<u>\$ 940</u>

Short term lease expense was not significant during the three and six months ended June 30, 2019.

Supplemental cash flow information related to leases was as follows:

	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 355
Operating cash flows from finance leases	440
Financing cash flows from finance leases	303

Right-of-use assets obtained in exchange for lease obligations:

Operating Leases	1,884
Finance Leases	—

Supplemental balance sheet information related to leases was as follows:

	June 30, 2019	
Operating Leases		
Operating lease right-of-use assets	\$	1,624
Other current liabilities and current maturities of leases and long-term debt		(741)
Other noncurrent liabilities		(1,150)
Total operating lease liabilities	\$	(1,891)
Finance Leases		
Property and equipment, at cost	\$	14,463
Accumulated depreciation		(3,698)
Property and equipment, net	\$	10,765
Other current liabilities and current maturities of leases and long-term debt	\$	(659)
Finance lease liabilities		(11,834)
Total finance lease liabilities	\$	(12,493)

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Maturities of lease liabilities as of June 30, 2019 were as follows:

	Operating Leases	Finance Leases
2019 (excluding the six months ended June 30, 2019)	\$ 369	\$ 750
2020	713	1,514
2021	565	1,519
2022	405	1,540
2023	—	1,562
2024	—	1,594
2025 and thereafter	—	9,799
Total payments	\$ 2,052	\$ 18,278
Less imputed interest	(161)	(5,785)
Total	\$ 1,891	\$ 12,493

Future minimum lease payments under noncancelable operating leases, including short-term operating leases, as of December 31, 2018 were projected as follows:

2019	\$	1,064
2020		893
2021		648
2022		405
Total	\$	3,010

8. COMMITMENTS AND CONTINGENCIES

Royalty Agreements. The Company has certain royalty agreements in place with terms that include payment of royalties of 3% to 5% of specified product sales. The royalty agreements have effective dates as early as 2003 and terms ranging from eighteen years to at least twenty years, unless terminated earlier. Royalty expense of \$740 and \$695 is included in cost of revenue for the three months ended June 30, 2019 and 2018. Royalty expense of \$1,449 and \$1,367 is included in cost of revenue for the six months ended June 30, 2019 and 2018.

Purchase Agreements. The Company enters into standard purchase agreements with various suppliers in the ordinary course of business. Outstanding commitments at June 30, 2019 were not significant. The Company has committed to the funding of the existing corporate headquarters expansion that is outside the ordinary course of business. The Company estimates the cost of the construction project to be approximately \$5,000 over the next twelve months.

Legal. The Company may, from time to time, become a party to legal proceedings. Such matters are subject to many uncertainties and to outcomes of which the financial impacts are not predictable with assurance and that may not be known for extended periods of time. When management has assessed that a loss is probable and an amount can be reasonably estimated, the Company records a liability.

The Company received a Civil Investigative Demand (CID) from the U.S. Department of Justice (USDOJ) in December 2017 stating that it is investigating the Company to determine whether the Company has violated the False Claims Act, relating to the promotion of certain medical devices related

to the treatment of atrial fibrillation for off-label use and submitted or caused to be submitted false claims to certain federal and state health care programs for medically unnecessary healthcare services related to the treatment of atrial fibrillation. The CID covers the period from January 2010 to December 2017 and requires the production of documents and answers to written interrogatories. The Company had no knowledge of the investigation prior to receipt of the CID. The Company maintains rigorous policies and procedures to promote compliance with the False Claims Act and other applicable regulatory requirements. The Company provided the USDOJ with documents and answers to the written interrogatories and is cooperating with its investigation. However, the Company cannot predict when the investigation will be resolved, the outcome of the investigation or its potential impact on the Company.

The Company acquired nContact Surgical, Inc. pursuant to a merger agreement dated October 4, 2015. The merger agreement provides for contingent consideration or “earnout” to be paid upon attaining specified regulatory approvals and clinical and revenue milestones. The merger agreement’s earnout provisions require the Company to deliver periodic earnout reports to a designated representative of former nContact stockholders. In response to the reports delivered in February 2018 and February 2019, the

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Company received letters from representatives on March 16, 2018 and March 11, 2019. The letters purport to serve as “earnout objection statements” (as that term is defined in the merger agreement) and claim that for purposes of determining the commercial milestone payment, the Company should be including revenues of certain products that the Company has not included in its earnout statements. The Company has corresponded with the representative regarding the earnout objection statement and disputes the basis of the representative’s claims.

9. REVENUE

The Company adopted FASB ASC 606, “Revenue from Contracts with Customers” (ASC 606) using the modified retrospective method effective January 1, 2018. The adoption of ASC 606 did not have a material impact on the amount or timing of revenue recognized in the condensed consolidated financial statements.

Revenue is generated primarily from the sale of disposable medical devices. The Company recognizes revenue in an amount that reflects the consideration the Company expects to be entitled to in exchange for those devices when control of promised devices is transferred to customers. At contract inception, the Company assesses the products promised in its contracts with customers and identifies a performance obligation for each promise to transfer to the customer a product that is distinct. The Company’s disposable medical devices are distinct and represent performance obligations. These performance obligations are satisfied and revenue is recognized at a point in time upon shipment or delivery of products. Sales of devices are categorized as follows: open ablation, minimally invasive ablation (MIS), appendage management and valve tools. Shipping and handling activities performed after control over products transfers to customers are considered activities to fulfill the promise to transfer the products rather than as separate promises to customers.

Products are sold primarily through a direct sales force and through distributors in select international markets. 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, with limited exceptions. The Company does not maintain any post-shipping obligations to customers. No installation, calibration or testing of products is performed by the Company subsequent to shipment in order to render products operational.

Significant judgments and estimates involved in the Company’s recognition of revenue include the determination of the timing of transfer of control of products to customers and the estimation for the provision for returns. The Company considers the following indicators when determining when the control of products transfers to customers: (i) the Company has a right to payment in accordance with the shipping terms set forth in its contracts with customers; (ii) customers have legal title to products in accordance with shipping terms; (iii) the Company transfers physical possession of products either when the Company presents the products to a third party carrier for delivery to a customer (FOB shipping point) or when a customer receives the delivered goods (FOB destination); (iv) customers have the significant risks and rewards of ownership of products; and (v) customers have accepted products in connection with contractual shipping terms.

In the normal course of business, the Company does not accept product returns unless a product is defective as manufactured. The Company establishes provisions for returns based on the expected value method considering historical experience. The Company does not provide customers with the right to a refund.

The Company expects to be entitled to the total consideration for the products ordered by customers as product pricing is fixed according to the terms of customer contracts and payment terms are short. Payment terms fall within the one-year guidance for the practical expedient which allows the Company to forgo adjustment of the promised amount of consideration for the effects of a significant financing component. The Company excludes taxes assessed by governmental authorities on revenue-producing transactions from the measurement of the transaction price.

Costs associated with product sales include commissions and royalties. Considering that product sales are performance obligations in contracts that are satisfied at a point in time, commission expense associated with product sales and royalties paid based on sales of certain products is incurred at that point in time rather than over time. Therefore, the Company applies the practical expedient and recognizes commissions and royalties as expense when incurred because the expense is incurred at a point in time and the amortization period is less than one year. Commissions are recorded as selling expense and royalties are recorded as cost of revenue.

See Note 12 for disaggregated revenue by geographic area and by product category.

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10. INCOME TAX PROVISION

The Company files federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The Company uses the asset and liability method to determine its provision for income taxes. The Company's provision for income taxes in interim periods is computed by applying its estimated annual effective rate against its pre-tax results for the period. Non-recurring items are recorded during the period in which they occur. The effective tax rate for the three months ended June 30, 2019 and 2018 was (0.24%) and (16.64%). The effective tax rate for the six months ended June 30, 2019 and 2018 was (0.79%) and (0.92%). The Company's worldwide effective tax rate differs from the US statutory rate of 21% due to the Company's valuation allowance in the United States and Netherlands.

Federal, state and local returns of the Company are routinely subject to review by various taxing authorities. The Company has not accrued any interest and penalties related to unrecognized income tax benefits as a result of offsetting net operating losses. However, if the situation occurs, the Company will recognize interest and penalties within income tax expense and within the related tax liability.

11. EQUITY COMPENSATION PLANS

The Company has two share-based incentive plans: the 2014 Stock Incentive Plan (2014 Plan) and the 2018 Employee Stock Purchase Plan (ESPP).

Stock Incentive Plan

Under the 2014 Plan, the Board of Directors may grant incentive stock options to employees and may grant restricted stock and restricted stock units (collectively RSAs), nonstatutory stock options, performance share awards (PSAs) or stock appreciation rights to employees, directors and consultants. The administrator (currently the Compensation Committee of the Board of Directors) has the authority to determine the terms of any awards, including the number of shares subject to each award, the exercisability of the awards and the form of consideration. As of June 30, 2019, 11,099 shares of common stock had been reserved for issuance under the 2014 Plan, and 800 shares were available for future grants. An additional 900 shares were approved by stockholders at the Company's 2019 Annual Meeting of Stockholders in May 2019 which will be registered during the third quarter of 2019.

During 2019 and 2018, the Compensation Committee approved the grant of performance share awards to the Company's named executive officers and certain other employees pursuant to the 2014 Plan. The form of award agreement for the PSAs (PSA Grant Form) provides, among other things, that (i) each PSA that vests represents the right to receive one share of the Company's common stock; (ii) the PSAs vest based on the Company achieving specified performance measurements over a performance period of three years; (iii) the performance measurements include revenue CAGR as defined in the PSA Grant Form; (iv) threshold, target and maximum payout opportunities established for the PSAs will be used to calculate the number of shares that will be issuable when the award vests, which may range from 0% to 200% of the target amount; (v) any PSAs that are earned are scheduled to vest and be settled in shares of the Company's common stock at the end of the performance period; and (vi) all or a portion of the PSAs may vest following a change of control or a termination of service by reason of death or disability (each as described in greater detail in the PSA Grant Form).

With respect to the PSAs, the number of shares that vest and are issued to the recipient is based upon the Company's performance as measured against the specified targets at the end of the three-year performance period as determined by the Compensation Committee. The Company estimates the fair value of the PSAs based on its closing stock price on the grant date and will adjust compensation expense over the performance period based on its estimate of performance target achievement.

Stock options granted prior to 2018 under the 2014 Plan generally expire ten years from the date of grant and generally vest at a rate of 25% on the first anniversary date of the grant and ratably each month thereafter over the following three years. Restricted stock awards granted prior to 2018 generally vest between one year and four years from the date of grant. Beginning in 2018, stock options and RSAs granted generally vest in one-third increments on the first, second and third anniversaries of the grant date.

Employee Stock Purchase Plan

The ESPP is available to eligible employees as defined in the plan document. Under the ESPP, shares of the Company's common stock may be purchased at a discount (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

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to change. Participants may not purchase a value of more than \$25 of the Company's common stock in a calendar year and may not purchase a value of more than 3 shares during an offering period. As of June 30, 2019, there were 534 shares available for future issuance under the ESPP.

Expense Information Under FASB ASC 718

The following table summarizes the allocation of share-based compensation expense:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Cost of revenue	\$ 228	\$ 239	\$ 417	\$ 476

Research and development expenses	596	361	1,091	952
Selling, general and administrative expenses	3,551	2,934	7,021	5,996
Total	<u>\$ 4,375</u>	<u>\$ 3,534</u>	<u>\$ 8,529</u>	<u>\$ 7,424</u>

12. SEGMENT AND GEOGRAPHIC INFORMATION

The Company develops, manufactures, and sells devices designed primarily for the surgical ablation of cardiac tissue and systems designed for the occlusion of the left atrial appendage. These devices are developed and marketed to a broad base of medical centers globally. Management considers all such sales to be part of a single operating segment. Revenue attributed to geographic areas, based on the location of customers, was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
United States	\$ 47,165	\$ 40,834	\$ 90,169	\$ 79,270
Europe	6,987	6,694	13,772	12,565
Asia	4,470	4,049	8,384	6,488
Other international	284	225	547	473
Total international	11,741	10,968	22,703	19,526
Total revenue	<u>\$ 58,906</u>	<u>\$ 51,802</u>	<u>\$ 112,872</u>	<u>\$ 98,796</u>

United States revenue by product type was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Open ablation	\$ 20,561	\$ 18,073	\$ 39,557	\$ 35,652
Minimally invasive ablation	9,092	9,114	16,854	17,727
Appendage management	16,498	13,101	32,168	24,898
Total ablation and appendage management	46,151	40,288	88,579	78,277
Valve tools	1,014	546	1,590	993
Total United States	<u>\$ 47,165</u>	<u>\$ 40,834</u>	<u>\$ 90,169</u>	<u>\$ 79,270</u>

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

International revenue by product type was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Open ablation	\$ 6,792	\$ 5,836	\$ 13,092	\$ 10,745
Minimally invasive ablation	1,935	2,660	4,064	4,452
Appendage management	2,977	2,424	5,431	4,222
Total ablation and appendage management	11,704	10,920	22,587	19,419
Valve tools	37	48	116	107
Total international	<u>\$ 11,741</u>	<u>\$ 10,968</u>	<u>\$ 22,703</u>	<u>\$ 19,526</u>

The Company's long-lived assets are located primarily in the United States, except for \$1,555 as of June 30, 2019 and \$1,296 as of December 31, 2018, which are located primarily in Europe.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and notes thereto contained in Item 1 of Part I of this Form 10-Q and our audited financial statements and

notes thereto as of and for the year ended December 31, 2018 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, 2018. Forward-looking statements address our expected future business, financial performance, financial condition and results of operations, and often contain words such as “intends,” “estimates,” “anticipates,” “hopes,” “projects,” “plans,” “expects,” “seek,” “believes,” “see,” “should,” “will,” “would,” “target,” and similar expressions and the negative versions thereof. Such statements are based only upon current expectations of AtriCure. Any forward-looking statement speaks only as of the date made. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to differ materially from those expressed or implied. Forward-looking statements include statements that address activities, events or developments that AtriCure expects, believes or anticipates will or may occur in the future. Forward-looking statements are based on AtriCure’s experience and perception of current conditions, trends, expected future developments and other factors it believes are appropriate under the circumstances and are subject to numerous risks and uncertainties, many of which are beyond AtriCure’s control. With respect to the forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements speak only as of the date of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise unless required by law.

Overview

We are a leading innovator in treatments for atrial fibrillation (Afib) and left atrial appendage (LAA) management. We have several product lines for the ablation of cardiac tissue, including our Isolator[®] Synergy[™] Ablation System, the first and only surgical device approved by the United States Food and Drug Administration (FDA) for the treatment of persistent and long-standing persistent forms of Afib in patients undergoing certain open concomitant procedures. We also offer a variety of minimally invasive ablation devices and access tools to facilitate the growing trend in less invasive cardiac and thoracic surgery. Our cryoICE[®] cryosurgery product line offers a variety of cryoablation devices for use in various types of cardiothoracic surgery. Our AtriClip[®] Left Atrial Appendage Exclusion System is a device specifically designed to occlude the heart’s left atrial appendage.

We believe that we are currently the market leader in the surgical treatment of Afib. Our products are used by physicians during both open and minimally invasive surgical procedures, either in conjunction with heart surgery for other conditions (“concomitant” to such a procedure) or on a standalone basis. Our Isolator Synergy System is approved by FDA for the treatment of persistent and long-standing persistent Afib concomitant to other open-heart surgical procedures. All of our other ablation devices are cleared for sale in the United States under FDA 510(k) clearances, including our other RF and cryoablation products, which are indicated for the ablation of cardiac tissue and/or treatment of cardiac arrhythmias. In addition, certain of our cryoablation probes are cleared for managing pain by temporarily ablating peripheral nerves. Our AtriClip products are 510(k)-cleared with an indication for the occlusion of the heart’s LAA, performed under direct visualization and in conjunction with other cardiac surgical procedures. Direct visualization, in this context, requires that the surgeon is able to see the heart directly, with or without assistance from a camera, endoscope or other appropriate viewing technologies. We also offer reusable surgical instruments typically used for cardiac valve replacement or repair. Our Isolator Synergy clamps, Isolator Synergy pens, Coolrail[®] linear pen, cryosurgery devices, certain products of the AtriClip LAA Exclusion System, COBRA Fusion[®] Ablation System, Numeris[™] System and the EPi-Sense[®] Guided Coagulation System with VisiTrax[®] technology bear the CE mark and may be commercially distributed throughout the member states of the European Union and other countries that comply with or mirror the Medical Device Directive. Our Isolator Synergy clamps, Isolator Synergy pens, Coolrail linear pen, cryosurgery devices, and certain products of the AtriClip LAA Exclusion System are available in select Asia-Pacific countries. 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.

We sell our products to medical centers through our direct sales force in the United States and in certain international markets, such as Germany, France, the United Kingdom and the Benelux region. We also sell our products to distributors who in turn sell our

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products to medical centers in other international markets. Our business is transacted in U.S. Dollars with the exception of transactions with our European subsidiaries, which are transacted in Euros or British Pounds.

Recent Developments

In February 2019, we launched the cryoICE[®] cryoSPHERE[™] probe in the United States. The cryoSPHERE probe is the first device in the cryoICE family solely dedicated to blocking pain by temporarily ablating peripheral nerves. The cryoSPHERE probe offers a unique 8mm ball-tip design, bendable distal shaft and an ergonomic handle to provide cardiac, thoracic and general surgeons ease of use when applying the device to the targeted peripheral nerves to block pain. The launch of the cryoSPHERE probe demonstrates AtriCure’s commitment to continued innovation in Cryo Nerve Block Therapy (cryoNB). The cryoSPHERE technology uses a unique freezing method to temporarily block nerves from transmitting pain signals. The block typically lasts several months, during which time the nerve regenerates, giving the body time to heal. Because of the long-lasting nature of the therapy, physicians are adopting cryoNB as an adjunct to their pain management modalities, offering a unique solution for patients undergoing cardiothoracic surgery.

In the United States, a significant risk device requires the prior submission of an application for an Investigational Device Exemption (IDE) to FDA for approval before initiating a clinical trial. Clinical trials are required to support a pre-market approval (PMA) and are sometimes required for 510(k) clearance. Some trials require a feasibility study followed by a pivotal trial. An IDE supplement is a means of obtaining approval to initiate a pivotal trial following the conclusion of a feasibility trial. We are conducting several clinical trials to validate the long-term results of procedures using our products and to support applications to regulatory agencies for expanded indications. In addition, we also conduct various studies to gather clinical data regarding our products. Key trials and studies are:

CONVERGE. We are conducting the CONVERGE IDE clinical trial to evaluate the safety and efficacy of the EPi-Sense Guided Coagulation System with VisiTrax technology to treat symptomatic persistent Afib patients who are refractory or intolerant to at least one Class I and/or III anti-arrhythmic drug. The trial provides for enrollment of up to 153 patients at 27 domestic medical centers and three international medical centers. Enrollment began in 2014 and

was completed in August 2018. The study protocol requires patient follow-up for twelve months post procedure for the primary effectiveness endpoint assessment and long-term follow-up through five years.

ATLAS. The ATLAS study is a non-IDE randomized pilot study evaluating outcomes of patients with risk factors for developing postoperative Afib as well as risk of bleeding on oral anticoagulation. There are two types of patients subject to this study: those with a postoperative Afib diagnosis and receiving prophylactic exclusion of the left atrial appendage with the AtriClip device concomitant to cardiac surgery and those with a postoperative Afib diagnosis who are medically managed. Enrollment began in February 2016 and ended in March 2018. Preliminary data was presented at the Heart Rhythm Society meeting in May 2019.

FROST. We are conducting a cryo nerve block study, which is a non-IDE randomized pilot study evaluating intraoperative intercostal cryoanalgesia. The study involves treatment arm patients who receive intercostal cryoanalgesia in conjunction with standard post-operative pain management and control arm patients who receive standard post-operative pain management only. The study provides for enrollment of up to 100 patients at five medical centers. Enrollment began in June 2016 and interim data analysis was completed at 80 patients enrolled. Results are being reviewed and discussed with study investigators and other key opinion leaders.

DEEP AF Pivotal Study. The DEEP AF IDE pivotal trial evaluates the safety and efficacy of the Isolator Synergy System when used in a staged approach where a minimally invasive surgical ablation procedure is first performed and the patient undergoes the intracardiac catheter procedure approximately 90-120 days later. The trial was paused during 2016-2017 due to our work to mitigate the risk related to atrioesophageal injury during the procedure. We are committed to patient safety, and we worked collaboratively with FDA and obtained approval to resume enrollment in the trial in 2018. We currently have FDA approval to enroll 40 patients, and we plan to seek approval of additional patients pending FDA's review of additional safety data.

CEASE AF. We are also pursuing a non-IDE trial in Europe to compare staged hybrid ablation treatment (minimally invasive surgical ablation procedure is first performed and the patient undergoes the intracardiac catheter procedure approximately 91-180 days later) versus catheter ablation alone. We expect the study to have enrollment of approximately 210 patients at twelve sites. Enrollment began in November 2015 and remains ongoing.

ICE-AFIB. The ICE-AFIB clinical trial is designed to study the safety and efficacy of the cryoICE system for persistent and long-standing persistent Afib treatment during concomitant on-pump cardiac surgery. The trial provides for enrollment of up to 150 patients at up to 20 sites in the United States. Enrollment began in February 2019 and remains ongoing.

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Results of Operations

Three months ended June 30, 2019 compared to three months ended June 30, 2018

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

	Three Months Ended June 30,			
	2019		2018	
	Amount	% of Revenues	Amount	% of Revenues
Revenue	\$ 58,906	100.0 %	\$ 51,802	100.0 %
Cost of revenue	15,013	25.5 %	13,723	26.5 %
Gross profit	43,893	74.5 %	38,079	73.5 %
Operating expenses:				
Research and development expenses	9,804	16.6 %	8,655	16.7 %
Selling, general and administrative expenses	37,928	64.4 %	28,466	55.0 %
Total operating expenses	47,732	81.0 %	37,121	71.7 %
Loss from operations	(3,839)	(6.5) %	958	1.8 %
Other income (expense):				
Interest expense	(879)	(1.5) %	(1,221)	(2.4) %
Interest income	636	1.1 %	123	0.2 %
Other	(9)	(0.0) %	(150)	(0.3) %
Total other expense	(252)	(0.4) %	(1,248)	(2.4) %
Loss before income tax expense	(4,091)	(6.9) %	(290)	(0.6) %
Income tax expense	10	0.0 %	48	0.1 %
Net loss	\$ (4,101)	(7.0) %	\$ (338)	(0.7) %

Revenue. Revenue increased 13.7% (14.5% on a constant currency basis). Revenue from customers in the United States increased \$6,331, or 15.5%, and revenue from international customers increased \$773, or 7.0% (10.8% on a constant currency basis). Sales in the United States grew across several key product categories. Open ablation sales increased \$2,488, or 13.8%, primarily due to the positive impact of the CryoSPHERE device launch, along with continued volume increases for cardiac ablation devices. Appendage management sales in the United States increased \$3,397, or 25.9%, to reflect the positive impact of the AtriClip FLEX-V[®] LAA Exclusion System that launched in the first quarter of 2018 and volume growth of minimally invasive LAA Exclusion System devices. Minimally invasive (MIS) ablation sales declined \$22, reflecting relatively flat volume across product lines. International revenue grew primarily in Australia, Japan, China, the United Kingdom, Germany and France, as a result of increased volumes across open ablation and appendage management products. Growth in these markets and product lines offsets a decline in revenue from the Benelux region and declines in minimally invasive ablation product sales throughout international markets.

Revenue reported on a constant currency basis is a non-GAAP measure and is calculated by applying previous period foreign currency (Euro) exchange rates, which are determined by the average daily Euro to Dollar exchange rate, to each of the comparable periods. Revenue is analyzed on a constant currency basis to better measure the comparability of results between periods. Because changes in foreign currency exchange rates have a non-operating impact on revenue, we believe that evaluating revenue growth on a constant currency basis provides additional and meaningful assessment of revenue to both management and our investors.

Cost of revenue and gross margin. Cost of revenue increased \$1,290, and gross margin increased 1.0%. The overall increase in gross margin was driven primarily by improvements to operations and lower costs, partially offset by unfavorable product mix in international locations.

Research and development expenses. Research and development expenses increased \$1,149, or 13.3%, due to \$235 incremental share-based compensation expense and \$191 higher expense from higher personnel and related expenses for product development, regulatory, and clinical activities. Clinical studies expense increased \$149 and product development project activities increased \$108 related to the timing of activities. Additionally, amortization expense increased \$142, in addition to increases in various operating costs.

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$9,462, or 33.2% primarily due to \$3,420 higher headcount and related costs and a \$3,711 lower reduction in the contingent consideration liability as compared to prior year (see Note 3 for further discussion). Other expense drivers include \$1,025 higher legal and professional fees, \$618 incremental share-based compensation cost, and \$538 increase in marketing, tradeshow and training activities expenses.

Net interest expense. Net interest expense decreased \$855 due to \$513 higher interest income from investments, along with a reduction in the term loan interest rate.

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Other income and expense. Other income and expense consists primarily of foreign currency transaction gains and losses.

Six months ended June 30, 2019 compared to six months ended June 30, 2018

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

	Six Months Ended June 30,			
	2019		2018	
	Amount	% of Revenues	Amount	% of Revenues
Revenue	\$ 112,872	100.0 %	\$ 98,796	100.0 %
Cost of revenue	29,108	25.8 %	26,214	26.5 %
Gross profit	83,764	74.2 %	72,582	73.5 %
Operating expenses:				
Research and development expenses	17,980	15.9 %	17,712	17.9 %
Selling, general and administrative expenses	74,943	66.4 %	63,342	64.1 %
Total operating expenses	92,923	82.3 %	81,054	82.0 %
Loss from operations	(9,159)	(8.1) %	(8,472)	(8.6) %
Other income (expense):				
Interest expense	(1,741)	(1.5) %	(2,041)	(2.1) %
Interest income	1,356	1.2 %	199	0.2 %
Other	(116)	(0.1) %	(62)	(0.1) %
Total other expense	(501)	(0.4) %	(1,904)	(1.9) %
Loss before income tax expense	(9,660)	(8.6) %	(10,376)	(10.5) %
Income tax expense	76	0.1 %	96	0.1 %
Net loss	\$ (9,736)	(8.6) %	\$ (10,472)	(10.6) %

Revenue. Revenue increased 14.2% (15.2% on a constant currency basis). Revenue from customers in the United States increased \$10,899 or 13.7%, and revenue from international customers increased \$3,177, or 16.3% (21.1% on a constant currency basis). Sales in the United States grew across many key product categories. Open ablation sales increased \$3,905, or 11.0%, primarily due to the launch of the CryoSPHERE device and other volume growth in our RF and legacy cryo products lines. Minimally invasive (MIS) ablation sales decreased \$873, or 4.9%, reflecting a decline in the Fusion and Epi-Sense product lines. Appendage management sales increased \$7,270, or 29.2%, reflecting increased volume across most product lines. Appendage management sales reflect the positive impact of the AtriClip FLEX•V LAA Exclusion System, which launched in the first quarter of 2018. International revenue grew primarily in China, Germany, the United Kingdom, France and Australia, offset partially by decreased revenue in the Benelux region and Switzerland. The overall increase in international revenue is a result of increased volumes in open ablation and appendage management, offsetting a decline in minimally invasive ablation products.

Revenue reported on a constant currency basis is a non-GAAP measure and is calculated by applying previous period foreign currency (Euro) exchange rates, which are determined by the average daily Euro to Dollar exchange rate, to each of the comparable periods. Revenue is analyzed on a constant currency basis to better measure the comparability of results between periods. Because changes in foreign currency exchange rates have a non-operating impact on revenue, we believe that evaluating revenue growth on a constant currency basis provides additional and meaningful assessment of revenue to both management and our investors.

Cost of revenue and gross margin. Cost of revenue increased \$2,894, reflecting higher sales volume, while gross margin increased 0.7%, from 73.5% in 2018 to 74.2% in 2019. The overall increase in gross margin was driven largely by operational improvements and lower production costs, as well as product mix, notably from appendage management products launched in late 2017 and early 2018 which are realizing higher gross margin than legacy appendage management products.

Research and development expenses. Research and development expenses increased \$268, or 1.5%, primarily due to \$467 higher personnel and related costs, \$139 incremental share-based compensation cost, \$284 higher amortization expense, and \$323 increase in various operating costs. These increases were partially offset by lower expense of \$544 related to clinical trials and grants and \$451 lower expense related to the timing of product development project activities.

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$11,601, or 18.3%, primarily due to \$6,858 higher headcount and related expenses and \$2,044 reduction in expense related to the contingent consideration adjustment (see Note 3 for further discussion). Other expense drivers include \$1,025 increase in share-based compensation, \$970 increase in marketing, training, and tradeshow activities, and

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Net interest expense. Net interest expense decreased \$1,457, from \$1,842 to \$385 due to \$1,157 higher interest income from investments and \$300 lower interest expense reflecting the lower interest rate on the term loan.

Other income and expense. Other income and expense consists primarily of foreign currency transaction gains and losses.

Liquidity and Capital Resources

As of June 30, 2019 the Company had cash, cash equivalents and investments of \$103,701 and outstanding debt of \$40,000. We had unused borrowing capacity of \$20,000 under our revolving credit facility. Most of our operating cash and all cash equivalents and investments are held by United States financial institutions. We had net working capital of \$107,093 and an accumulated deficit of \$256,739 as of June 30, 2019.

Cash flows used in operating activities. Net cash used in operating activities was \$9,692 during the six months ended June 30, 2019. The primary net uses of cash for operating activities were as follows:

- Net loss of \$9,736, offset by \$9,357 of non-cash expenses, including \$8,529 of share-based compensation and \$4,590 of depreciation and amortization, offset by a \$3,872 reduction in the contingent consideration liability; and

Net increase in cash used related to changes in operating assets and liabilities of \$9,313, due primarily to the following:

- a reduction of accrued liabilities of \$5,845, due primarily to payment of variable compensation;
- an increase in accounts payable of \$2,407 from increased inventory and operating costs;
- an increase in all categories of inventories of \$1,966 in anticipation of future growth; and
- an increase in accounts receivable of \$2,859 due to revenue growth.

Cash flows provided by investing activities. Net cash provided by investing activities was \$10,087 during the six months ended June 30, 2019. Cash from investing activities was primarily due to \$46,162 of maturities of available-for-sale securities based on timing of investment maturities and cash used to fund operations. This source of cash was offset by \$4,456 of purchases of property and equipment and \$31,627 of purchases of available-for-sale securities.

Cash flows used in financing activities. Net cash used in financing activities during the six months ended June 30, 2019 was \$7,274, which was primarily shares repurchased for payment of taxes on stock awards of \$8,696 partially offset by proceeds from stock option exercises of \$2,024.

Credit facility. Our Loan and Security Agreement with Silicon Valley Bank (SVB), as amended, restated and modified effective February 23, 2018, and as further amended on December 28, 2018 (Loan Agreement), provides for a \$40,000 term loan and a \$20,000 revolving line of credit with an option to increase the revolving line of credit by up to an additional \$20,000. The term loan and revolving credit facility both mature or expire, as applicable, in February 2023. As the Company met certain conditions as specified in the Loan Agreement, principal payments on the term loan were deferred by an additional six months and will commence February 2020, through the loan's maturity date. The term loan accrues interest at the greater of the Prime Rate plus 0.50%, or 5.00%. Borrowing availability under the revolving credit facility is based on the lesser of \$20,000 or a borrowing base calculation as defined by the Loan Agreement. As of June 30, 2019, we had no borrowings under the revolving credit facility, and we had borrowing availability of \$20,000. The Loan Agreement also provides for certain prepayment and early termination fees only if the term loan is repaid before January 2020 and establishes a minimum liquidity ratio, along with other customary terms and conditions. Specified assets have been pledged as collateral.

In connection with the terms of our corporate headquarters lease agreement, a letter of credit in the amount of \$1,250 was issued to the landlord in October 2015. The letter of credit is renewed annually and remains outstanding as of June 30, 2019.

Uses of liquidity and capital resources. Our future capital requirements depend on a number of factors, including 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 cost of filings; costs associated with clinical trials and securing regulatory approval for new products; costs associated with acquiring and integrating businesses; costs associated with prosecuting, defending and enforcing our intellectual property rights; and possible acquisitions and joint ventures. Global economic turmoil may adversely impact our revenue, access to the capital markets or future demand for our products.

We have on file with the SEC a shelf registration statement which allows us to sell any combination of senior or subordinated debt securities, common stock, preferred stock, warrants, depository shares and units in one or more offerings should we choose to do so in the future. We expect to maintain the effectiveness of this shelf registration statement for the foreseeable future.

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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 line of credit, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next twelve months. The nContact transaction provides for contingent consideration to be paid upon attaining specified regulatory approvals before January 2021 and revenue milestones in 2019. Subject to the terms and conditions of the nContact merger agreement, such contingent consideration will be paid in AtriCure common stock and cash, with a requirement to make payments in AtriCure common stock first, up to a specified maximum number of shares. Over the next twelve months, we do not expect our cash requirements to include significant payments of contingent consideration based on terms of the acquisition agreement and

related milestones. See the heading “Legal” in Note 8 for a description of an earnout objection statement received from the nContact shareholder representative.

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. Finally, our term loan agreement and revolving line of credit require compliance with certain financial and other covenants. If we are unable to maintain these financing arrangements, we may be required to reduce the scope of our planned research and development, clinical activities and selling, training, education and marketing efforts.

Seasonality

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

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and disclosures of contingent assets and liabilities at the date of the financial statements. On a periodic basis, we evaluate our estimates, including those related to sales returns and allowances, accounts receivable, inventories, intangible assets including goodwill, contingent liabilities 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, 2018 includes additional information about the Company, our operations, our financial position and our critical accounting policies and estimates and should be read in conjunction with this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2019 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, 2018.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, we routinely enhance our information systems by either upgrading current systems or implementing new ones. There were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2019 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 8 – Commitments and Contingencies to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Item 1A, "Risk Factors" in our Form 10-K for the year ended December 31, 2018, all of which could materially affect our business, financial condition or future results. The risks described herein and therein 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, 2018.

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Item 6. Exhibits

Exhibit No.	Description
10.1#	AtriCure, Inc. 2018 Employee Stock Purchase Plan (Amended and Restated effective July 1, 2019)
10.2#	AtriCure, Inc. 2014 Stock Incentive Plan (Amended and Restated as of May 22, 2019) (incorporated by reference to our Current Report on Form 8-K filed on May 28, 2019)
10.3#	Form of Restricted Stock Award Agreement under the Amended and Restated AtriCure, Inc. 2014 Stock Incentive Plan
10.4#	Form of Stock Option Award Agreement under the Amended and Restated AtriCure, Inc. 2014 Stock Incentive Plan
10.5#	Form of Restricted Share Unit Award Agreement under the Amended and Restated AtriCure, Inc. 2014 Stock Incentive Plan
31.1	Rule 13a-14(a) Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Rule 13a-14(a) Certification of Principal Accounting and Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350 by the Principal Executive Officer, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350 by the Principal Accounting and Financial Officer, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Compensatory plan or arrangement

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SIGNATURES

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

AtriCure, Inc.
(REGISTRANT)

Date: July 31, 2019

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

Date: July 31, 2019

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

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ATRICURE, INC.
2018 EMPLOYEE STOCK PURCHASE PLAN

AMENDED AND RESTATED JULY 1, 2019

1. Purpose. The purposes of the Plan are as follows:

(a) To assist employees of the Company and its Participating Subsidiaries (as defined below) with the opportunity to acquire stock ownership interest in the Company. The Plan is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423(b) of the Internal Revenue Code of 1986, as amended, and the Plan will be administered and interpreted in accordance with that intent;

(b) To help employees provide for their future security and to encourage them to remain in the employment of the Company; and

(c) To help align the interests of our employees with those of the Company’s shareholders.

2. Definitions.

“**Board or Board of Directors**” means the Board of Directors of the Company, as constituted from time to time.

“**Change in Control**” means the occurrence of any of the following events:

(i) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets; or

(iii) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its Parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

“**Code**” means the U.S. Internal Revenue Code of 1986, as it may be amended from time to time. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

“**Committee**” means the committee appointed by the Board to administer the Plan.

“**Common Stock**” means the common stock of the Company, par value \$0.001 per share. “Common Stock” shall also include (i) the common stock of the surviving corporation in any consolidation, merger or reincorporation effected exclusively to change the domicile of the Company and (ii) such other securities of the Company that may be substituted for Common Stock pursuant to Section 18 hereof.

“**Company**” means AtriCure, Inc., a Delaware corporation, or any successor corporation (including, without limitation, the surviving corporation in any consolidation, merger or reincorporation effected exclusively to change the domicile of the Company).

“**Compensation**” means all base straight time gross earnings, non-worked paid hours (PTO, VTO, Holiday, Bereavement, Jury, Excused Paid Time Off, and Parental Leave), and commissions, exclusive of payments for overtime, shift premium, incentive compensation, incentive payments, bonuses, fringe benefits and other compensation paid to an Eligible Employee by the Company or a Participating Subsidiary as compensation for services to the Company or Participating Subsidiary, before deduction for any salary deferral contributions made by the Eligible Employee to any tax-qualified or nonqualified deferred compensation plan.

“**Designated Broker**” means the financial services firm or other agent designated by the Company to maintain ESPP Share Accounts on behalf of Participants who have purchased shares of Common Stock under the Plan.

“**Effective Date**” means the date as of which this Plan is adopted by the Board, subject to the Plan obtaining shareholder approval in accordance with Section 19.11 hereof.

“**Employee**” means any person who renders services to the Company or a Participating Subsidiary as an employee pursuant to an employment relationship with such employer. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on military leave, sick leave or other leave of absence approved by the Company or a Participating Subsidiary that meets the requirements of Treasury Regulation Section 1.421-1(h)(2). Where the period of leave exceeds three (3) months, or such other period of time specified in Treasury Regulation Section 1.421-1(h)(2), and the individual’s right to re-employment is not guaranteed by statute or contract, the employment relationship shall be deemed to have terminated on the first day immediately following such three-month period, or such other period specified in Treasury Regulation Section 1.421-1(h)(2).

“**Eligible Employee**” means an Employee of the Company:

(i) who does not, immediately after the option is granted, own stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company, a Parent or a Subsidiary (as determined under Section 423(b)(3) of the Code);

(ii) whose customary employment is for more than twenty (20) hours per week; and

(iii) whose customary employment is for more than five (5) months in any calendar year.

For purposes of clause (i), the rules of Section 424(d) of the Code with regard to the attribution of stock ownership shall apply in determining the stock ownership of an individual, and stock which an employee may purchase under outstanding options shall be treated as stock owned by the employee.

Notwithstanding the foregoing, the Committee may exclude from participation in the Plan any Employee who is a “highly compensated employee” of the Company or a Participating Subsidiary (within the meaning of Section 414(q) of the Code) or a sub-set of such highly compensated employees.

“**Enrollment Form**” means an agreement pursuant to which an Eligible Employee may elect to enroll in the Plan, to authorize a new level of payroll deductions, or to stop payroll deductions and withdraw from an Offering Period.

“**ESPP Share Account**” means an account into which Common Stock purchased with accumulated payroll deductions at the end of an Offering Period are held on behalf of a Participant.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Fair Market Value**” means as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, its Fair Market Value shall be the closing sales price for a share of Common Stock as reported in *The Wall Street Journal* (or such other source as the Committee may deem reliable for such purposes) for such date, or if no sale occurred on such date, the closing sales price on the first trading date immediately prior to such date during which a sale occurred;

(ii) If the Common Stock is not traded on any established stock exchange or a national market system but is quoted on a quotation system, its Fair Market Value shall be the mean between the closing representative bid and asked prices for the Common Stock on such date, or if no sale occurred on such date, the first date immediately prior to such date on which sales prices or bid and asked prices, as applicable, are reported by such quotation system; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Committee.

“Offering Date” means the first Trading Day of each Offering Period as designated by the Committee.

“Offering or Offering Period” means each period of approximately six (6) months commencing on any January 1 and July 1 and terminating on the last Trading Day on or before the next occurring June 30 or December 31, as applicable, except for the first Offering Period under the Plan, which shall commence on the Effective Date and end on December 31, 2018. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan, but in no event may an Offering Period have a duration in excess of twenty-seven (27) months.

“Parent” means any corporation, other than the Company, in an unbroken chain of corporations ending with the Company if, at the time of the determination, each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

“Participant” means an Eligible Employee who is actively participating in the Plan.

“Participating Subsidiaries” means the Subsidiaries that have been designated as eligible to participate in the Plan, and such other Subsidiaries that may be designated by the Committee from time to time in its sole discretion. The Committee may designate, or terminate the designation of, a subsidiary as a Participating Subsidiary without the approval of the shareholders of the Company.

“Plan” means this AtriCure, Inc. 2018 Employee Stock Purchase Plan, as set forth herein, and as amended from time to time.

“Purchase Date” means the last Trading Day of each Offering Period.

“Purchase Price” means 85% of the Fair Market Value of a share of Common Stock on the Offering Date or on the Purchase Date, whichever is lower; provided, however that (i) if the Committee so designates, the Committee may set from time to time for future Offering Periods a higher percentage of Fair Market Value of a share of Common Stock or a higher dollar amount as the Purchase Price or instead provide that the Purchase Price will be calculated based only on a percentage of the Fair Market Value of a share of Common Stock on the Purchase Date that is equal to or more than 85%; (ii) the Purchase Price may be adjusted by the Committee pursuant to Section 18 hereof; and (iii) the Purchase Price shall in no event be less than the par value of a share of Common Stock.

“Securities Act” means the Securities Act of 1933, as amended.

“Subsidiary” means any corporation, domestic or foreign, of which not less than 50% of the combined voting power is held by the Company or a Subsidiary, whether or not such corporation exists now or is hereafter organized or acquired by the Company or a Subsidiary. In all cases, the determination of whether an entity is a Subsidiary shall be made in accordance with Section 424(f) of the Code.

“**Trading Day**” means any day on which the national stock exchange upon which the Common Stock is listed is open for trading or, if the Common Stock is not listed on an established stock exchange or national market system, a business day, as determined by the Committee in good faith.

3. Administration.

3.1 The Plan shall be administered by the Committee which shall have the authority to construe and interpret the Plan, prescribe, amend and rescind rules relating to the Plan’s administration and take any other actions necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency or ambiguity in the Plan. The decisions of the Committee shall be final and binding on all persons. All expenses of administering the Plan shall be paid by the Company.

3.2 The Committee at its option may utilize the services of an agent to assist in the administration of the Plan including establishing and maintaining an individual securities account under the Plan for each Participant. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan.

3.3 All expenses and liabilities incurred by the Committee in connection with the administration of the Plan shall be borne by the Company. The Committee may, with the approval of the Board, employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Committee, the Company and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon all Participants, the Company and all other interested persons. No member of the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the options, and all members of the Board shall be fully protected by the Company in respect to any such action, determination, or interpretation.

4. Eligibility. Unless otherwise determined by the Committee in a manner that is consistent with Section 423 of the Code, any individual who is an Eligible Employee as designated by the Committee for a particular Offering Period shall be eligible to participate in such Offering Period, subject to the requirements of Section 423 of the Code. Notwithstanding any provision of the Plan to the contrary, no Eligible Employee shall be granted an option under the Plan if such option would permit his or her rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its Subsidiaries to accrue at a rate that exceeds \$25,000 of the Fair Market Value of such stock (determined at the time the option is granted) for each calendar year in which such option is outstanding at any time.

5. Offering Periods. The Plan shall be implemented by a series of consecutive Offering Periods, each of which shall be six (6) months in duration, with new Offering Periods commencing on or about January 1 and July 1 of each year (or such other times as determined by

the Committee). The Committee shall have the authority to change the duration, frequency, start and end dates of Offering Periods.

6. Participation.

6.1 Enrollment; Payroll Deductions. An Eligible Employee may elect to participate in the Plan by properly completing an Enrollment Form, which may be electronic, and submitting it to the Company, in accordance with the enrollment procedures established by the Committee. Participation in the Plan is entirely voluntary. By submitting an Enrollment Form, the Eligible Employee authorizes payroll deductions from his or her pay check in an amount equal to at least 1%, but not more than 10% of his or her Compensation on each pay day occurring during an Offering Period (or such other maximum percentage as the Committee may establish from time to time before an Offering Period begins). Payroll deductions shall commence on the first payroll date following the Offering Date and end on the last payroll date on or before the Purchase Date. The Company shall maintain records of all payroll deductions but shall have no obligation to pay interest on payroll deductions or to hold such amounts in a trust or in any segregated account. Unless expressly permitted by the Committee, a Participant may not make any separate contributions or payments to the Plan.

6.2 Election Changes. During an Offering Period, a Participant may decrease or increase his or her rate of payroll deductions applicable to such Offering Period. The Committee may limit the number of election changes made by a Participant in an Offering Period. To make such a change, the Participant must submit a new Enrollment Form authorizing the new rate of payroll deductions at least five (5) business days before the Purchase Date.

6.3 Automatic Re-enrollment. The deduction rate selected in the Enrollment Form shall remain in effect for subsequent Offering Periods unless the Participant (a) submits a new Enrollment Form authorizing a new level of payroll deductions in accordance with Section 6, (b) withdraws from the Plan in accordance with Section 10, or (c) terminates employment or otherwise becomes ineligible to participate in the Plan.

7. Grant of Option. On each Offering Date, each Participant in the applicable Offering Period shall be granted an option to purchase, on the Purchase Date, a number of shares of Common Stock determined by dividing the Participant's accumulated payroll deductions by the applicable Purchase Price; provided, however, that in no event shall any Participant purchase more than 2,500 shares of Common Stock during an Offering Period (subject to adjustment in accordance with Section 18 and the limitations set forth in Section 13 of the Plan).

8. Exercise of Option/Purchase of Shares. A Participant's option to purchase shares of Common Stock will be exercised automatically on the Purchase Date of each Offering Period. The Participant's accumulated payroll deductions will be used to purchase the maximum number of whole shares that can be purchased with the amounts in the Participant's notional account. No fractional shares may be purchased but notional fractional shares of Common Stock will be allocated to the Participant's ESPP Share Account to be aggregated with other notional fractional

shares of Common Stock on future Purchase Dates, subject to earlier withdrawal by the Participant in accordance with Section 10 or termination of employment in accordance with Section 11.

9. Transfer of Shares. As soon as reasonably practicable after each Purchase Date, the Company will arrange for the delivery to each Participant of the shares of Common Stock purchased upon exercise of his or her option. The Committee may permit or require that the shares be deposited directly into an ESPP Share Account established in the name of the Participant with a Designated Broker and may require that the shares of Common Stock be retained with such Designated Broker for a specified period of time. Participants will not have any voting, dividend or other rights of a shareholder with respect to the shares of Common Stock subject to any option granted hereunder until such shares have been delivered pursuant to this Section 9.

10. Withdrawal.

10.1 Withdrawal Procedure. A Participant may withdraw from an Offering by submitting to the Company a revised Enrollment Form indicating his or her election to withdraw at least five (5) days before the Purchase Date. The accumulated payroll deductions held on behalf of a Participant in his or her notional account (that have not been used to purchase shares of Common Stock) shall be paid to the Participant promptly following receipt of the Participant's Enrollment Form indicating his or her election to withdraw and the Participant's option shall be automatically terminated. If a Participant withdraws from an Offering Period, no payroll deductions will be made during any succeeding Offering Period, unless the Participant re-enrolls in accordance with Section 6 of the Plan.

10.2 Effect on Succeeding Offering Periods. A Participant's election to withdraw from an Offering Period will not have any effect upon his or her eligibility to participate in succeeding Offering Periods that commence following the completion of the Offering Period from which the Participant withdraws.

11. Termination of Employment; Change in Employment Status. Upon termination of a Participant's employment for any reason, including death, disability or retirement, or a change in the Participant's employment status following which the Participant is no longer an Eligible Employee, which in either case occurs before the Purchase Date, the Participant will be deemed to have withdrawn from the Plan and the payroll deductions in the Participant's notional account (that have not been used to purchase shares of Common Stock) shall be returned to the Participant, or in the case of the Participant's death, to the person(s) entitled to such amounts under Section 17, and the Participant's option shall be automatically terminated.

12. Interest. No interest shall accrue on or be payable with respect to the payroll deductions of a Participant in the Plan.

13. Shares Reserved for Plan.

13.1 Number of Shares. The maximum number of shares of Common Stock reserved as authorized for the grant of options under the Plan is 500,000 shares. If any right granted under the Plan shall for any reason terminate without having been exercised, the Common Stock not purchased under such right shall again become available for issuance under the Plan. In addition, any unused shares reserved under the AtriCure, Inc. 2008 Employee Stock Purchase Plan shall become available for issuance under this Plan and if any right granted under the AtriCure, Inc. 2008 Employee Stock Purchase Plan shall for any reason terminate without having been exercised, the Common Stock not purchased under such right shall become available for issuance under this Plan. The shares of Common Stock may be newly issued shares, treasury shares or shares acquired on the open market.

13.2 Over-subscribed Offerings. The number of shares of Common Stock which a Participant may purchase in an Offering under the Plan may be reduced if the Offering is over-subscribed. No option granted under the Plan shall permit a Participant to purchase shares of Common Stock which, if added together with the total number of shares of Common Stock purchased by all other Participants in such Offering would exceed the total number of shares of Common Stock remaining available under the Plan. If the Committee determines that, on a particular Purchase Date, the number of shares of Common Stock with respect to which options are to be exercised exceeds the number of shares of Common Stock then available under the Plan, the Company shall make a pro rata allocation of the shares of Common Stock remaining available for purchase in as uniform a manner as practicable and as the Committee determines to be equitable.

14. Transferability. No payroll deductions credited to a Participant, nor any rights with respect to the exercise of an option or any rights to receive Common Stock hereunder may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 17 hereof) by the Participant. Any attempt to assign, transfer, pledge or otherwise dispose of such rights or amounts shall be without effect.

15. Application of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose to the extent permitted by applicable law, and the Company shall not be required to segregate such payroll deductions or contributions.

16. Statements. Participants will be provided with statements at least annually which shall set forth the contributions made by the Participant to the Plan, the Purchase Price of any shares of Common Stock purchased with accumulated funds, the number of shares of Common Stock purchased, and any payroll deduction amounts remaining in the Participant's notional account.

17. Designation of Beneficiary.

17.1 A Participant may file, on forms supplied by the Committee, a written designation of beneficiary who is to receive any shares of Common Stock and cash in respect of any fractional shares of Common Stock, if any, from the Participant's ESPP Share Account under the Plan in the event of such Participant's death. In addition, a Participant may file a written designation of beneficiary who is to receive any cash withheld through payroll deductions and credited to the Participant's notional account in the event of the Participant's death prior to the Purchase Date of an Offering Period.

17.2 Such designation of a beneficiary may be changed by the Participant at any time by written notice to the Company. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

18. Adjustments Upon Changes in Capitalization; Dissolution or Liquidation; Change in Control.

18.1 Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option, the maximum number of shares each Participant may purchase during each Offering Period (pursuant to Section 7 hereof), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

18.2 Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the

Committee. The New Exercise Date shall be before the effective date of the Company's proposed dissolution or liquidation. The Committee shall notify each Participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

18.3 Merger or Change in Control. In the event of a merger or Change in Control, the Offering Period with respect to each outstanding option will be shortened by setting a New Exercise Date and will end on the New Exercise Date. The New Exercise Date will occur before the date of the Company's proposed merger or Change in Control. The Committee will notify each Participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

19. General Provisions.

19.1 Equal Rights and Privileges. Notwithstanding any provision of the Plan to the contrary and in accordance with Section 423 of the Code, all Eligible Employees who are granted options under the Plan shall have the same rights and privileges.

19.2 No Right to Continued Service. Neither the Plan nor any compensation paid hereunder will confer on any Participant the right to continue as an Employee or in any other capacity.

19.3 Rights as Shareholder. A Participant will become a shareholder with respect to the shares of Common Stock that are purchased pursuant to options granted under the Plan when the shares are transferred to the Participant's ESPP Share Account. A Participant will have no rights as a shareholder with respect to shares of Common Stock for which an election to participate in an Offering Period has been made until such Participant becomes a shareholder as provided above.

19.4 Successors and Assigns. The Plan shall be binding on the Company and its successors and assigns.

19.5 Entire Plan. This Plan constitutes the entire plan with respect to the subject matter hereof and supersedes all prior plans with respect to the subject matter hereof.

19.6 Compliance with Law. The obligations of the Company with respect to payments under the Plan are subject to compliance with all applicable laws and regulations. Common Stock shall not be issued with respect to an option granted under the Plan unless the exercise of such option and the issuance and delivery of the shares of Common Stock pursuant thereto shall comply with all applicable provisions of law, including, without limitation, the

Securities Act, the Exchange Act, and the requirements of any stock exchange upon which the shares of Common Stock may then be listed.

19.7 Notice of Disqualifying Dispositions. Each Participant shall give the Company prompt written notice of any disposition or other transfer of shares of Common Stock acquired pursuant to the exercise of an option acquired under the Plan, if such disposition or transfer is made within two years after the Offering Date or within one year after the Purchase Date.

19.8 Term of Plan. The Plan shall become effective on the Effective Date and, unless terminated earlier pursuant to Section 19.9, shall have a term of ten (10) years.

19.9 Amendment or Termination. The Committee may, in its sole discretion, amend, suspend or terminate the Plan at any time and for any reason. If the Plan is terminated, the Committee may elect to terminate all outstanding Offering Periods either immediately or once shares of Common Stock have been purchased on the next Purchase Date (which may, in the discretion of the Committee, be accelerated) or permit Offering Periods to expire in accordance with their terms (and subject to any adjustment in accordance with Section 18). If any Offering Period is terminated before its scheduled expiration, all amounts that have not been used to purchase shares of Common Stock will be returned to Participants (without interest, except as otherwise required by law) as soon as administratively practicable.

19.10 Applicable Law. The laws of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of the Plan, without regard to such state's conflict of law rules.

19.11 Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted by the Board.

19.12 Section 423. The Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code. Any provision of the Plan that is inconsistent with Section 423 of the Code shall be reformed to comply with Section 423 of the Code.

19.13 Withholding. To the extent required by applicable Federal, state or local law, a Participant must make arrangements satisfactory to the Company for the payment of any withholding or similar tax obligations that arise in connection with the Plan.

19.14 Severability. If any provision of the Plan shall for any reason be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof, and the Plan shall be construed as if such invalid or unenforceable provision were omitted.

19.15 Headings. The headings of sections herein are included solely for convenience and shall not affect the meaning of any of the provisions of the Plan.

ATRICURE, INC.

2014 Stock INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT

Summary of Restricted Stock Award Grant

AtriCure, Inc., a Delaware corporation (the "Company"), grants to the Grantee named below, in accordance with the terms of the AtriCure, Inc. Amended and Restated 2014 Stock Incentive Plan (the "Plan") and this Restricted Stock Award Agreement (the "Agreement"), the following number of shares of Restricted Stock of the Company (the "Restricted Shares"), on the Grant Date set forth below:

Name of Grantee: _____

Number of Shares: _____

Grant Date: _____

Vesting Date: One-third of the Shares shall vest annually upon the respective one, two and three year anniversaries of the Grant Date.

Terms of Agreement

1. Grant of Restricted Stock Awards. Subject to and upon the terms, conditions, and restrictions set forth in this Agreement and in the Plan, the Company grants to the Grantee as of the Grant Date, the number of Restricted Shares set forth above. The Restricted Shares shall be credited in a book entry account established for the Grantee until payment in accordance with Section 4.

2. Vesting of Restricted Shares. The Restricted Shares shall vest on the Vesting Date provided that the Grantee has remained in the continuous employ of the Company or a Subsidiary of the Company from the Grant Date through the Vesting Date.

3. Forfeiture of Restricted Shares. Subject to the terms and conditions in the Plan, including, without limitation, Sections 5(e), 6(c), 9 and 10, the Restricted Shares that have not yet vested pursuant to Section 2 shall be forfeited automatically without further action or notice if the Grantee ceases to be employed by the Company or a Subsidiary.

4. Payment.

(a) The Company shall deliver to the Grantee the Restricted Shares within thirty (30) days following the date that the Restricted Shares become vested in accordance with Section 2.

(b) The Company's obligations with respect to the Restricted Shares shall be satisfied in full upon the delivery of the Shares.

5. Restrictive Legend. Certificates representing the Restricted Shares granted pursuant to this Agreement shall bear a legend making appropriate reference to the restrictions imposed, and such certificates shall remain in the physical custody of the Company, as escrow holder, until all restrictions are removed or have expired.

6. Transferability. The Restricted Shares may not be transferred and shall not be subject in any manner to assignment, alienation, pledge, encumbrance or charge, until all restrictions are removed or have expired, unless otherwise provided under the Plan. Any purported Transfer or encumbrance in violation of the provisions of this Section 6 shall be void, and the other party to any such purported transaction shall not obtain any rights to or interest in such Restricted Shares.

7. Dividend, Voting and Other Rights. The Grantee shall possess all incidents of ownership (including, without limitation, dividend and voting rights) with respect to the Restricted Shares granted pursuant to this Agreement as of the Grant Date. Notwithstanding the foregoing, any dividends or distributions on the Restricted Shares to be delivered to Grantee shall be paid on the Vesting Date.

8. Continuous Employment. For purposes of this Agreement, the continuous employment of the Grantee with the Company and its Subsidiaries shall not be deemed to have been interrupted, and the Grantee shall not be deemed to have ceased to be an employee of the Company and its Subsidiaries, by reason of the transfer of his employment among the Company and its Subsidiaries or a leave of absence approved by the Committee.

9. No Employment Contract. Nothing contained in this Agreement shall confer upon the Grantee any right with respect to continuance of employment by the Company and its Subsidiaries, nor limit or affect in any manner the right of the Company and its Subsidiaries to terminate the employment or adjust the compensation of the Grantee.

10. Relation to Other Benefits. Any economic or other benefit to the Grantee under this Agreement or the Plan shall not be taken into account in determining any benefits to which the Grantee may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company or a Subsidiary and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company or a Subsidiary.

11. Taxes and Withholding. To the extent that the Company or any Subsidiary is required to withhold any federal, state, local, foreign or other tax in connection with the Restricted Shares pursuant to this Agreement, it shall be a condition to earning the award that the Grantee make arrangements satisfactory to the Company or such Subsidiary for payment of such taxes required to be withheld. The Committee may, in its sole discretion, require the Grantee to satisfy such required withholding obligation by surrendering to the Company a portion of the Shares earned by the Grantee under this Agreement, and the Shares so surrendered by the Grantee shall be credited against any such withholding obligation at the Fair Market Value of such Shares on the date of surrender.

12. Adjustments. The number and kind of Shares deliverable pursuant to a Restricted Stock Award are subject to adjustment as provided in Section 8 of the Plan.

13. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws and listing requirements with respect to the Restricted Shares; provided, however, notwithstanding any other provision of this Agreement, the Company shall not be obligated to deliver any Shares pursuant to this Agreement if the delivery of such Shares would result in a violation of any such law or listing requirement.

14. Section 409A. This Agreement is intended to be exempt from or comply with Section 409A of the Code and shall be construed and interpreted in a manner that is consistent with the requirements for avoiding additional taxes and penalties under Section 409A of the Code.

15. Amendments. Subject to the terms of the Plan, the Committee may modify this Agreement upon written notice to the Grantee. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable to this Agreement. Notwithstanding the foregoing, no amendment of the Plan or this Agreement shall adversely affect the rights of the Grantee under this Agreement without the Grantee's consent.

16. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions of this Agreement, and the remaining provisions of this Agreement shall continue to be valid and fully enforceable.

17. Relation to Plan. This Agreement is subject to the terms and conditions of the Plan. This Agreement and the Plan contain the entire agreement and understanding of the parties with respect to the subject matter contained in this Agreement, and supersede all prior written or oral communications, representations and negotiations in respect to this Agreement. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used in this Agreement without definition shall have the meanings assigned to them in the Plan. The Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise in this Agreement, have the right to determine any questions which arise in connection with the grant of the Restricted Shares.

18. Successors and Assigns. Without limiting Section 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Grantee, and the successors and assigns of the Company.

19. Governing Law. The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Ohio, without giving effect to the principles of conflict of laws of Ohio.

20. Electronic Delivery. The Grantee consents and agrees to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other award made or offered under the Plan. The Grantee understands that, unless earlier revoked by the Grantee by giving written notice to the Secretary of the Company, this consent shall be effective for the duration of the Agreement. The Grantee also understands that he or she shall have the right at any time to request that the Company deliver written copies of any and all materials referred to above at no charge. The Grantee consents to any and all procedures the Company has established

or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. The Grantee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan.

The Company has caused this Agreement to be executed on its behalf by its duly authorized officer and the Grantee has also executed this Agreement, as of the Grant Date.

ATRICURE, INC.

By: _____
Michael H. Carrel
President and Chief Executive Officer

By: _____
M. Andrew Wade
Senior Vice President and Chief Financial Officer

The undersigned acknowledges that a copy of the Plan, Plan Summary and Prospectus, and the Company's most recent Annual Report and Proxy Statement (the "Prospectus Information") are available for viewing on the Company's intranet site at www.atricure.com. The Grantee consents to receiving this Prospectus Information electronically, or, in the alternative, agrees to contact the Company's Chief Financial Officer at (513) 755-4100 to request a paper copy of the Prospectus Information at no charge. The Grantee represents that he or she is familiar with the terms and provisions of the Prospectus Information and accepts the award of Restricted Shares on the terms and conditions set forth in this Agreement and in the Plan.

Grantee

Date: _____

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ATRICURE, INC.
2014 STOCK INCENTIVE PLAN
STOCK OPTION AGREEMENT

Unless otherwise defined herein, capitalized terms in this Option Agreement shall have the same meanings ascribed to such terms in the AtriCure, Inc. Amended and Restated 2014 Stock Incentive Plan (the "Plan").

I. NOTICE OF STOCK OPTION GRANT

Name:

Address:

You (the "Optionee") have been granted an option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Grant Number	
Date of Grant	
Exercise Price per Share	
Total Number of Shares Granted	
Total Exercise Price	
Type of Option	Nonstatutory Stock Option
Expiration Date	

A. Vesting Schedule.

This Option may be exercised, in whole or in part, in accordance with the following schedule:

This Option vests and is exercisable as to one-third annually upon each of the respective one, two, and three year anniversaries of the grant date.

B. Termination Period.

This Option may only be exercised for three (3) months after Optionee ceases to be a Service Provider. Upon the death or Disability of Optionee, this Option may only be exercised for twelve (12) months after Optionee ceases to be a Service Provider. In all cases, this Option will expire on the Expiration Date set forth above.

II. AGREEMENT

A. Grant of Option.

The Administrator of the Plan hereby grants to the Optionee an Option to purchase the number of Shares set forth in Part I of this Option Agreement, at the exercise price per Share set forth in Part I of this Option Agreement (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 13(b) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in Part I of this Option Agreement as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it (together with all prior Options granted to the Optionee) exceeds the \$100,000 rule of Code Section 422(d) it shall be treated as a Nonstatutory Stock Option ("NSO").

B. Exercise of Option.

(1) Term. This Option is exercisable at any time prior to the Expiration Date set forth above and in accordance with the Vesting Schedule set forth above and the applicable provisions of the Plan and this Option Agreement.

(2) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price. No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

C. Method of Payment.

Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

- (1) cash;
- (2) check;
- (3) consideration received by the Company under a cashless exercise program (if any) implemented by the Company in connection with the Plan; or

- (4) surrender of other Shares, which in the case of Shares acquired from the Company,
 - (i) have been owned by the Optionee for more than six (6) months on the date of surrender, and
 - (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

D. Non-Transferability of Option.

This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

E. Tax Obligations.

(1) **Withholding Taxes.** Optionee agrees to make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state, and local income and employment tax withholding requirements applicable to the Option exercise. Optionee acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(2) **Notice of Disqualifying Disposition of ISO Shares.** If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (a) the date two (2) years after the Date of Grant, or (b) the date one (1) year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

F. Entire Agreement; Governing Law.

The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and the Optionee. This Option Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of Ohio.

G. NO GUARANTEE OF CONTINUED SERVICE.

THE OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT

AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL,
AND SHALL NOT INTERFERE WITH THE OPTIONEE'S RIGHT OR THE COMPANY'S
RIGHT TO TERMINATE THE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT
ANY TIME, WITH OR WITHOUT CAUSE.

[Remainder of page intentionally left blank. Signature page follows.]

By the Optionee's signature and the signature of the Company's representative below, the Optionee and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. The Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. The Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE:

ATRICURE, INC.

Signature

By: _____
Michael H. Carrel
President and Chief Executive Officer

Residence Address

By: _____
M. Andrew Wade
Senior Vice President and CFO

EXHIBIT A

ATRICURE, INC.

2014 STOCK INCENTIVE PLAN

EXERCISE NOTICE

AtriCure, Inc.
7555 Innovation Way
Mason, Ohio 45040

Attention: Chief Financial Officer

1. Exercise of Option. Effective as of today _____, the undersigned (“Purchaser”) hereby elects to purchase _____ shares (the “Shares”) of the Common Stock of AtriCure, Inc. (the “Company”) under and pursuant to the Amended and Restated 2014 Stock Incentive Plan (the “Plan”) and the Stock Option Agreement dated _____ (the “Option Agreement”). The purchase price for the Shares shall be \$ _____ per Share, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares and any required withholding taxes to be paid in connection with the exercise of the Option.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Exercised Shares, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 8 of the Plan.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser’s purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and

supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This Exercise Notice is governed by the internal substantive laws, but not the choice of law rules, of the State of Ohio.

Submitted by:

Accepted by:

PURCHASER:

ATRICURE, INC.

Signature

By: _____

Print Name

Title

Address:

Address:
7555 Innovation Way
Mason, Ohio 45040

Date Received

ATRICURE, INC.
2014 STOCK INCENTIVE PLAN

RESTRICTED SHARE UNIT AWARD AGREEMENT

Summary of Restricted Share Unit Award Grant

AtriCure, Inc., a Delaware corporation (the "Company"), grants to the Grantee named below, in accordance with the terms of the 2014 Stock Incentive Plan (as amended and restated from time to time, the "Plan"), and this Restricted Share Unit (the "RSU" or "Restricted Unit") Award Agreement (the "Agreement"), RSUs as follows:

Name of Grantee: _____
Grant Number: _____
Number of RSUs: _____
Grant Date: _____
Vesting Date: _____

Terms of Agreement

1. Grant of Restricted Share Unit Awards. Subject to and upon the terms, conditions, and restrictions set forth in this Agreement and in the Plan, the Company grants to the Grantee as of the Grant Date, the total number of Restricted Units identified above upon the terms and conditions of this Agreement. The Restricted Units shall be credited in a book entry account established for the Grantee until payment in accordance with Section 4 of this Agreement.

2. Eligibility. The Grantee shall hold a position within the Company or any Subsidiary that is recommended by the Company's Chief Executive Officer and/or the award contemplated hereby shall be approved by the Committee.

3. Vesting of Restricted Units.

(a) Except as otherwise provided in this Agreement, this grant of Restricted Units shall vest in full on the Vesting Date above. Prior to the Vesting Date, no portion of the award is vested, except as otherwise provided in Section 3(b) or otherwise in accordance with the Plan.

(b) Subject to the terms and conditions in the Plan, including, without limitation, Sections 5(e), 6(c), 9 and 10, all of the Restricted Units shall vest in full prior to the Vesting Date upon the occurrence of any of the following: (i) the Grantee dies while in the employ of the Company; (ii) the Grantee satisfies the requirements for Retirement, including separation from employment with the Company; (iii) the Grantee has a Disability; or (iv) there is a Change in Control event described in Section 2(i) of the Plan.

(c) The Restricted Units that have not yet vested pursuant to Section 3 shall be forfeited automatically without further action or notice if the Grantee ceases to be employed by the Company other than as provided in Section 3(b) hereof.

4. Payment of Restricted Units.

(a) Except as otherwise provided in this Agreement, the Company shall deliver to the Grantee (or Grantee's beneficiary) one share of its common stock ("Share") for each vested Restricted Unit within thirty (30) days following the earlier of

(i) the Vesting Date identified on the first page hereof under "Summary of Restricted Share Unit Award Grant";

(ii) the date of the Grantee's death;

(iii) the date of the Grantee's Disability, provided such Disability also constitutes a "disability" within the meaning of Section 409A of the Code with respect to a Grantee whose Restricted Units are subject to Section 409A of the Code;

(iv) the date of Grantee's termination of employment with the Company as a result of Retirement or a Change in Control event described in Section 2(i)(i) or (iii) of the Plan, provided such termination of employment also constitutes a "separation from service" within the meaning of Section 409A of the Code with respect to a Grantee whose Restricted Units are subject to Section 409A of the Code; or

(v) the date of an event described in Section 2(i)(ii) or (iv) of the Plan, provided such event also constitutes a "change in control event" within the meaning of Section 409A of the Code with respect to a Grantee whose Restricted Units are subject to Section 409A of the Code.

(b) If the Grantee is a "specified employee" within the meaning of Section 409A of the Code on the date of the Grantee's separation from service and the Grantee's Restricted Units are subject to Section 409A of the Code, then payment under (iv) above shall be made on the first day of the seventh month following the Grantee's separation from service, or, if earlier, the date of the Grantee's death.

(c) The Company's obligations with respect to the Restricted Units shall be satisfied in full upon the delivery of its Shares pursuant to Section 4(a) herein.

(d) If the Grantee's continuous employment with the Company or any Subsidiary terminates for Cause (as defined in the Plan), all Shares underlying the Restricted Units

(including unearned portions thereof), whether vested or not, shall immediately be forfeited upon such termination for Cause.

5. Transferability. The Restricted Units may not be Transferred and shall not be subject in any manner to assignment, alienation, pledge, encumbrance or charge, unless otherwise provided under the Plan. Any purported Transfer or encumbrance in violation of the provisions of this Section 5 shall be void, and the other party to any such purported transaction shall not obtain any rights to or interest in such Restricted Units.

6. Dividend, Voting and Other Rights. The Grantee shall not possess any incidents of ownership (including, without limitation, dividend and voting rights) in the Shares underlying the Restricted Units until such Shares have been delivered to the Grantee in accordance with Section 4 of this Agreement. The obligations of the Company under this Agreement will be merely that of an unfunded and unsecured promise of the Company to deliver Shares in the future, and the rights of the Grantee will be no greater than that of an unsecured general creditor. No assets of the Company will be held or set aside as security for the obligations of the Company under this Agreement.

7. Continuous Employment. For purposes of this Agreement, the continuous employment of the Grantee with the Company and its Subsidiaries shall not be deemed to have been interrupted, and the Grantee shall not be deemed to have ceased to be an employee of the Company and its Subsidiaries, by reason of the transfer of his employment among the Company and its Subsidiaries.

8. No Employment Contract. Nothing contained in this Agreement shall confer upon the Grantee any right with respect to continuance of employment by the Company and its Subsidiaries, nor limit or affect in any manner the right of the Company and its Subsidiaries to terminate the employment or adjust the compensation of the Grantee.

9. Relation to Other Benefits. Any economic or other benefit to the Grantee under this Agreement or the Plan shall not be taken into account in determining any benefits to which the Grantee may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company or a Subsidiary and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company or a Subsidiary.

10. Taxes and Withholding. To the extent that the Company or any Subsidiary is required to withhold any federal, state, local, foreign or other tax in connection with the Restricted Units pursuant to this Agreement, it shall be a condition to earning the award that the Grantee make arrangements satisfactory to the Company or such Subsidiary for payment of such taxes required to be withheld. The Committee may, in its sole discretion, require the Grantee to satisfy such required withholding obligation by surrendering to the Company a portion of the Shares earned by the Grantee under this Agreement, and the Shares so surrendered by the Grantee shall be credited against any such withholding obligation at the Fair Market Value of such Shares on the date of surrender.

11. Adjustments. The number and kind of Shares deliverable pursuant to the Restricted Units are subject to adjustment as provided in Section 8 of the Plan.

12. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws and listing requirements with respect to the Restricted Units; provided, however, notwithstanding any other provision of this Agreement, the Company shall not be obligated to deliver any Shares pursuant to this Agreement if the delivery of this Agreement would result in a violation of any such law or listing requirement.

13. Amendments. Subject to the terms of the Plan, the Committee may modify this Agreement upon written notice to the Grantee. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable to this Agreement. Notwithstanding the foregoing, no amendment of the Plan or this Agreement shall adversely affect the rights of the Grantee under this Agreement without the Grantee's consent unless the Committee determines, in good faith, that such amendment is required for the Agreement to either be exempt from the application of, or comply with, the requirements of Section 409A of the Code, or as otherwise may be provided in the Plan.

14. Compliance with Section 409A of the Code. It is intended that this Agreement shall either be exempt from the application of, or comply with, the requirements of Section 409A of the Code. This Agreement shall be construed, administered, and governed in a manner that effects such intent, and the Committee shall not take any action that would be inconsistent with such intent. Without limiting the foregoing, the Restricted Units shall not be deferred, accelerated, extended, paid out, settled, adjusted, substituted, exchanged or modified in a manner that would cause the award to fail to satisfy the conditions of an applicable exception from the requirements of Section 409A of the Code or otherwise would subject the Grantee to the additional tax imposed under Section 409A of the Code. The amounts payable pursuant to this Agreement are intended to be separate payments that qualify for the "short-term deferral" exception to Section 409A of the Code to the maximum extent possible.

15. Fixed Payment Date. All payments due and payable under the Plan on a fixed date shall be treated as made upon such fixed date if such payment is made on such date or a later date within the same taxable year of the Grantee or, if later, by the 15th day of the third calendar month following the specified date (provided the Grantee is not entitled, directly or indirectly, to designate the taxable year of the payment). A payment is also treated as made upon a fixed date under the Plan if the payment is made no earlier than 30 days before the designated payment date and the Participant is not permitted, directly or indirectly, to designate the taxable year of the payment.

16. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions of this Agreement, and the remaining provisions of this Agreement shall continue to be valid and fully enforceable.

17. Relation to Plan. This Agreement is subject to the terms and conditions of the Plan. This Agreement and the Plan contain the entire agreement and understanding of the parties with respect to the subject matter contained in this Agreement, and supersede all prior written or oral

communications, representations and negotiations with respect to this Agreement. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used of this Agreement without definition shall have the meanings assigned to them in the Plan. The Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise of this Agreement, have the right to determine any questions which arise in connection with the grant of the Restricted Units.

18. Successors and Assigns. Without limiting Section 5, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Grantee, and the successors and assigns of the Company.

19. Governing Law. The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principles of conflict of laws of this Agreement.

20. Electronic Delivery. The Grantee consents and agrees to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other award made or offered under the Plan. The Grantee understands that, unless earlier revoked by the Grantee by giving written notice to the Chief Financial Officer of the Company, this consent shall be effective for the duration of the Agreement. The Grantee also understands that he or she shall have the right at any time to request that the Company deliver written copies of any and all materials referred to above at no charge. The Grantee consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. The Grantee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan.

The Company has caused this Agreement to be executed on its behalf by its duly authorized officer and the Grantee has also executed this Agreement, as of the Grant Date.

The

ATRICURE, INC.

By: _____
Name: _____
Title: _____

ATRICURE, INC.

By: _____
Name: _____
Title: _____

undersigned acknowledges that a copy of the Plan, Plan Summary and Prospectus, and the Company's most recent Annual Report and Proxy Statement (the "Prospectus Information") are available for viewing on the Company's intranet site at www.atricure.com. The Grantee consents to receiving this Prospectus Information electronically, or, in the alternative, agrees to contact the Company's Chief Financial Officer at (513) 755-4100 to request a paper copy of the Prospectus Information at no charge. The Grantee represents that he or she is familiar with the terms and provisions of the Prospectus Information and accepts the award of Restricted Units on the terms and conditions set forth of this Agreement and in the Plan.

Grantee

Date: _____

ALTERNATIVE FOR ELECTRONIC SIGNATURE

You may accept the award online or by telephone in accordance with the procedures established by the Company and the Plan administrator. By accepting your award in accordance with these procedures, you acknowledge that a copy of the Plan, Plan Summary and Prospectus, and the Company's most recent Annual Report and Proxy Statement (the "Prospectus Information") either have been received by you or are available for viewing on the Company's intranet site at www.atricure.com, and consent to receiving this Prospectus Information electronically, or, in the alternative, agree to contact the Company's Chief Financial Officer at (513) 755-4100 to request a paper copy of the Prospectus Information at no charge. You also represent that you are familiar with the terms and provisions of the Prospectus Information and accept the award on the terms and conditions set forth of this Agreement and in the Plan. These terms and conditions constitute a legal contract that will bind both you and the Company as soon as you accept the award as described above.

APPENDIX

**ATRICURE, INC.
2014 STOCK INCENTIVE PLAN**

**RESTRICTED SHARE UNIT AWARD AGREEMENT
(for Non-U.S. Employees)**

This Appendix includes additional terms and conditions that govern the Restricted Units granted to the Grantee if the Grantee resides in one of the countries listed herein. The Appendix forms part of the Agreement. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement and the Plan.

This Appendix also includes information regarding exchange controls and certain other issues of which the Grantee should be aware with respect to the Grantee's participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of December 1, 2008. Such laws are often complex and change frequently. As a result, the Company strongly recommends that the Grantee not rely on the information noted herein as the only source of information relating to the consequences of the Grantee's participation in the Plan because the information may be out of date at the time the Grantee vests in the Restricted Units or sells the Shares acquired under the Plan.

In addition, the information contained herein is general in nature and may not apply to the Grantee's particular situation, and the Company is not in a position to assure the Grantee of any particular result. Accordingly, the Grantee is advised to seek appropriate professional advice as to how the relevant laws in the Grantee's country may apply to the Grantee's situation.

Finally, if the Grantee is a citizen or resident of a country other than the one in which the Grantee is currently working, the information contained herein may not be applicable to the Grantee.

Belgium

No country-specific terms apply.

France

Exchange Control Information. The Grantee must comply with the exchange control regulations in France. The Grantee may hold stock outside of France, provided the Grantee declares any bank or stock account opened, held or closed abroad to the French tax authorities on an annual basis. Furthermore, the Grantee must declare to the customs and excise authorities any cash or securities the Grantee imports or exports without the use of a financial institution when the value of the cash or securities exceeds €7,600 outside of the European Union.

Germany

Exchange Control Information. Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank. If the Grantee uses a German bank to effect a cross-border

payment in excess of €12,500 in connection with the sale of Shares acquired under the Plan, the bank will make the report for the Grantee. In addition, the Grantee must report any receivables or payables or debts in foreign currency exceeding an amount of €5,000,000 on a monthly basis. Finally, the Grantee must report, on an annual basis, Shares that exceed 10% of the total voting capital of the Company.

The Netherlands

Securities Law Information. In the event the Grantee acquires Shares from the Company pursuant to the vesting or payment of the RSUs, it is prohibited for the Grantee to subsequently offer such Shares to the public in the Netherlands unless a prospectus approved by the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*), in accordance with the Prospectus Directive (2003/71/EC), as amended and implemented in the Netherlands, is made generally available or unless an exemption to the aforementioned prospectus requirement applies under Dutch law.

The Grantee must comply with all applicable local securities laws when offering acquired Shares to the public. Before any offer (or invitation to offer) of the Shares is made the Grantee must obtain expert advice from a legal advisor in order to ensure compliance with local securities laws. Breach of securities laws may lead to considerable administrative penalties and/or imprisonment.

United Kingdom

Terms and Conditions

Withholding taxes. This provision supplements the Award.

The Grantee agrees that if the Grantee does not pay or the Employer or the Company does not withhold from the Grantee the full amount of income tax that the participant owes due to the vesting of the Restricted Share Units, or the release or assignment of the Restricted Share Units for consideration, or the receipt of any other benefit in connection with the Restricted Share Units (the “Taxable Event”) within 90 days of the Taxable Event, or such other period specified in Section 222(1) (c) of the U.K. Income Tax (Earnings and Pensions) Act 2003, then the amount that should have been withheld shall constitute a loan owed by the Participant to the Employer, effective 90 days after the Taxable Event. The Grantee agrees that the loan will bear interest at the then current rate of Her Majesty’s Revenue and Customs (“HMRC”) and will be immediately due and repayable by the Grantee, and the Company and/or Employer may recover it at any time thereafter by withholding the funds from salary, bonus or any other funds due to the Grantee by the Employer, by withholding in Shares issued upon vesting and settlement of the RSU’s or from the cash proceeds from the sale of Shares or by demanding cash or a cheque from the Grantee. The Grantee also authorizes the Company to delay the issuance of any Shares to the Participant unless and until the loan is repaid in full.

Notwithstanding the foregoing, if the Grantee is an officer or executive director (as within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), the terms of the immediately foregoing provision will not apply. In the event that the Grantee is an officer

or executive director and income tax is not collected from or paid by the Grantee within 90 days of the Taxable Event, the amount of any uncollected income tax may constitute a benefit to the Grantee on which additional income tax and national insurance contributions may be payable. The Grantee acknowledges that the Company or the Employer may recover any such additional income tax and national insurance contributions at any time thereafter by any of the means referred to in Section 11 of the Award. However, the Grantee is also responsible for reporting and paying any income tax and national insurance contributions due on this additional benefit directly to HMRC under the self-assessment regime.

Restricted Share Units payable in shares. Notwithstanding any discretion in the Plan or anything to the contrary in the Award, Restricted Share Units granted to the Grantee in the United Kingdom does not provide any right for the Grantee to receive a cash payment; the Restricted Share Units are payable in shares only.

Hong Kong

Delivery of Shares. This provision supplements Section 5 of the Award Agreement:

Shares received under the Plan are accepted as a personal investment. In the event the Restricted Share Units vest and shares of Stock are paid to Participant within six months of the Date of Grant, Participant agrees that he or she will not dispose of the shares of Stock acquired prior to the six-month anniversary of the Date of Grant.

Securities Law Information. Securities Warning: This offer of Restricted Share Units and the Shares to be issued pursuant to the Award is not a public offer of securities and is available only for Plan Participants. The Award Agreement, including this Appendix, the Plan and other incidental Award documentation have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable securities legislation in Hong Kong, nor has the Award documentation been reviewed by any regulatory authority in Hong Kong. The Restricted Share Units are intended only for the personal use of each eligible Plan Participant and the Company and may not be distributed to any other person. If you are in any doubt about any of the contents of the Award Agreement, including this Appendix, or the Plan, you should obtain independent professional advice.

Nature of Scheme. The Company specifically intends that the Plan will not be an occupational retirement scheme for purposes of the Occupational Retirement Schemes Ordinance.

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

I, Michael H. Carrel, certify that:

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

Date: July 31, 2019

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

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

I, M. Andrew Wade, certify that:

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

Date: July 31, 2019

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

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

In connection with the quarterly report of AtriCure, Inc. (Company) on Form 10-Q for the quarter ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (Report), I, Michael H. Carrel, President and Chief Executive Officer and Principal Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: July 31, 2019

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

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

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

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

In connection with the quarterly report of AtriCure, Inc. (Company) on Form 10-Q for the quarter ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (Report), I, M. Andrew Wade, Vice President and Chief Financial Officer and Principal Accounting and Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: July 31, 2019

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

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

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