Holmes Richard W
Form 4
January 05, 2010

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

| OMB APPROVAL | |
|---|---|
| OMB Number: | 3235-0287 |
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Holmes Richard W

(Last) (First) (Middle)

2611 TANBRIDGE ROAD

(Street)

CHARLOTTE, NC 28226

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
URANERZ ENERGY CORP. [URZ]

3. Date of Earliest Transaction (Month/Day/Year)
01/05/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | 5. Number of Derivative Securities Acquired (A) | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) |
|---|---|---|---|---|---|---|---|

| | Derivative Security | | | | | or Disposed of (D) (Instr. 3, 4, and 5) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares |
| Common Share Options | $ 1.33 | 01/05/2010 | | A | | 25,000 | | 01/05/2010 | 01/04/2020 | Common Shares | 25,000 |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| Holmes Richard W<br>2611 TANBRIDGE ROAD<br>CHARLOTTE, NC 28226 | X | | | |

# Signatures

| Richard Holmes | 01/05/2010 |
|---|---|
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. > Issuance of common stock for nContact acquisition

3,757

3

68,985

—

—

68,988

Issuance of common stock under equity incentive plans

850

1

1,920

—

—

1,921

Issuance of common stock under employee stock
purchase plan

87

—

1,539

—

—

1,539

Reclassification of non-employee option liability

—

—

Explanation of Responses:

177

—

—

177

Share-based employee compensation expense

—

—

8,997

—

—

8,997

Other comprehensive loss

—

—

—

—

(263)

(263)

Net loss

—

—

—

(27,212)

—

(27,212)

Balance—December 31, 2015

32,274

$

32

$

352,900

$

(165,636)

Explanation of Responses:

$

(611)

$

186,685

See accompanying notes to consolidated financial statements.

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ATRICURE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015, 2014 and 2013

(In Thousands)

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $ (27,212) | $ (16,211) | $ (11,462) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Share-based compensation expense | 8,997 | 7,571 | 3,080 |
| Depreciation | 4,975 | 3,353 | 2,008 |
| Amortization of intangible assets | 1,303 | 1,421 | 12 |
| Amortization of deferred financing costs | 61 | 113 | 115 |
| Loss (gain) on disposal of property and equipment | 276 | 118 | (6) |
| Realized loss from foreign exchange on intercompany transactions | 434 | 544 | — |
| Amortization/accretion on investments | 577 | 500 | 49 |
| Change in allowance for doubtful accounts | 144 | (34) | (14) |
| Change in fair value of contingent consideration | — | (8,032) | — |
| Other | — | 95 | — |
| Changes in operating assets and liabilities, net of amounts acquired: | | | |
| Accounts receivable | (900) | (4,168) | (1,248) |
| Inventories | (2,950) | (4,343) | (2,288) |
| Other current assets | (928) | 307 | (1,257) |
| Accounts payable | 4,013 | (944) | 1,445 |
| Accrued liabilities | 3,070 | (1,847) | 4,114 |
| Other noncurrent assets and liabilities | 298 | (43) | 230 |
| Net cash used in operating activities | (7,842) | (21,600) | (5,222) |
| Cash flows from investing activities: | | | |
| Purchases of available-for-sale securities | (19,525) | (41,107) | (21,243) |
| Sales and maturities of available-for-sale securities | 40,602 | 19,614 | 6,200 |
| Purchases of property and equipment | (13,445) | (5,508) | (2,864) |
| Increases in property under build-to-suit obligation | (10,552) | (3,699) | — |
| Proceeds from sale of property and equipment | — | 77 | 48 |
| Cash acquired through Estech business combination | — | — | 3,708 |
| Cash paid for nContact business combination | (7,581) | — | — |
| Net cash used in investing activities | (10,501) | (30,623) | (14,151) |
| Cash flows from financing activities: | | | |
| | — | 65,830 | 26,872 |

| | | | |
|---|---|---|---|
| Proceeds from sale of stock, net of offering costs of $0, $257 and $212, respectively | | | |
| Payments on debt and capital leases | (263) | (6,382) | (2,055) |
| Proceeds from build-to-suit obligation | 10,552 | 3,699 | — |
| Proceeds from economic incentive loan | 340 | — | — |
| Payment of debt fees and premium on retirement of debt | (62) | (181) | (99) |
| Proceeds from stock option exercises | 2,703 | 1,916 | 1,718 |
| Shares repurchased for payment of taxes on stock awards | (782) | (331) | (398) |
| Proceeds from issuance of common stock under employee stock purchase plan | 1,539 | 1,320 | 790 |
| Payment of stock issuance fees | (66) | — | — |
| Net cash provided by financing activities | 13,961 | 65,871 | 26,828 |
| Effect of exchange rate changes on cash and cash equivalents | (238) | (156) | (316) |
| Net (decrease) increase in cash and cash equivalents | (4,620) | 13,492 | 7,139 |
| Cash and cash equivalents—beginning of period | 28,384 | 14,892 | 7,753 |
| Cash and cash equivalents—end of period | $ 23,764 | $ 28,384 | $ 14,892 |
| Supplemental cash flow information: | | | |
| Cash paid for interest | $ 232 | $ 115 | $ 473 |
| Cash paid for taxes | 20 | 146 | 30 |
| Non-cash investing and financing activities: | | | |
| Accrued purchases of property and equipment | 1,277 | 547 | 282 |
| Assets acquired through capital lease | 50 | 47 | 68 |
| Capital lease asset early termination | — | 38 | 24 |
| Stock issuance in business combinations | 69,054 | — | 39,720 |
| Contingent consideration in business combinations | 40,207 | — | 8,032 |

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Amounts)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Revenue Recognition—The Company accounts for revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605, “Revenue Recognition” (ASC 605). The Company recognizes revenue when all of the following criteria are met: (i) there is persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured.

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

Revenue includes shipping and handling revenue of $1,056, $952 and $786 in 2015, 2014 and 2013, respectively. Cost of freight for shipments made to customers is included in cost of revenue. Sales and other value-added taxes collected from customers and remitted to governmental authorities are excluded from revenue. The Company sells its products primarily through a direct sales force, with certain international markets sold through distributors. Terms of sale are generally consistent for both end-users and distributors except that payment terms are generally net 30 days for end-users and net 60 days for distributors with limited exceptions.

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

Allowance for Doubtful Accounts Receivable—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 expense. The Company reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables against the allowance when all attempts to collect the receivable have failed. The Company's history of write-offs against the allowance has not been significant.

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

ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

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

Generators and other capital equipment (such as the Company's switchbox units and cryosurgical consoles) are placed with direct customers that use the Company's disposable products. Depreciation of such assets is included in cost of revenue. The estimated useful lives of this equipment are based on anticipated usage by customers and the timing and impact of expected new technology rollouts by the Company. To the extent the Company experiences changes in the usage of this equipment or introduces new technologies, the estimated useful lives of this equipment may change in a future period.

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

Intangible Assets—Intangible assets with determinable useful lives are amortized on a straight-line basis over the estimated periods benefited.

Included in intangible assets is In Process Research and Development (IPR&D). The Company defines IPR&D as the value of acquired technology which has not yet reached technological feasibility. The primary basis for determining the technological feasibility is obtaining specific regulatory approvals. The estimated fair value of IPR&D acquired in a business combination is capitalized as an indefinite-lived intangible asset until completion or abandonment of the IPR&D project. Upon completion of the development project, the IPR&D is amortized over its estimated useful life. If the IPR&D project is abandoned, the related IPR&D asset would be written off. The estimated fair value of IPR&D was determined using an income approach model. At December 31, 2015, IPR&D represented an estimate of the fair value of the PMA approval that could result from the CONVERGE IDE clinical trial (see Note 5 – Business Combinations).

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

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

Other Current Liabilities and Current Maturities of Capital Leases—As of December 31, 2014, other current liabilities consisted of a financing obligation related to the construction of the Company's new headquarters. Current maturities of capital leases consist of capital lease obligations with maturities of less than one year (see Note 10 – Indebtedness).

Other Noncurrent Liabilities—Other noncurrent liabilities include contingent consideration recorded in business combinations (see Note 5 – Business Combinations), as well as long-term deferred revenues and other contractual obligations.

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

The Company recorded foreign currency transaction (losses) gains of ($339), ($523) and $269 for the years ended December 31, 2015, 2014 and 2013, respectively, primarily in connection with settlements of its intercompany balances with AtriCure Europe and invoices transacted in British Pounds.

The Company periodically is awarded grants to support research and development activities or education activities. The Company recognizes grant income when the funds are earned. The Company recorded grant income of $35, $731 and $0 during 2015, 2014 and 2013, respectively.

The Company historically issued stock options to non-employee consultants as a form of compensation for services provided to the Company. Because the non-employee options require settlement by the Company's delivery of registered shares and because the tax withholding provisions in the awards allow the options to be partially net-cash settled, these options, when vested, are no longer eligible for equity classification and are, thus, subsequently accounted for as derivative liabilities under FASB ASC 815, "Derivatives and Hedging" (ASC 815) until the awards are ultimately either exercised or forfeited. Accordingly, the vested non-employee options are classified as liabilities and remeasured at fair value through earnings at each reporting period. All vested non-employee options

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

have been exercised as of December 31, 2015. During the years ended December 31, 2015, 2014 and 2013, $57, $183 and ($272), respectively, of (expense) income was recorded as a result of the remeasurement of the fair value of these fully vested stock options.

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

The Company's estimate of the valuation allowance for deferred tax assets requires it to make significant estimates and judgments about its future operating results. Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more-likely-than-not that some portion of the deferred tax asset will not be realized. Significant weight is given to evidence that can be objectively verified. The Company evaluates deferred tax assets on a quarterly basis to determine if valuation allowances are required by considering all available evidence. Deferred tax assets are realized by having sufficient future taxable income to allow the related tax benefits to reduce taxes otherwise payable. The sources of taxable income that may be available to realize the benefit of deferred tax assets are future reversals of existing taxable temporary differences, future taxable income, exclusive of reversing temporary differences and carryforwards, taxable income in carry-back years and tax planning strategies that are both prudent and feasible. In evaluating whether to record a valuation allowance, the applicable accounting standards deem that the existence of cumulative losses in recent years is a significant piece of objectively verifiable negative evidence that must be overcome by objectively verifiable positive evidence to avoid the need to record a valuation allowance. The Company has recorded a full valuation allowance against its net deferred tax assets as it is more likely than not that the benefit of the deferred tax assets will not be recognized in future periods.

A provision of The Patient Protection and Affordable Care Act enacted in 2010, as amended (Patient Act), requires manufacturers of medical devices to pay an excise tax on all U.S. medical device sales. The Company's expense related to the medical device excise tax, which was recorded in cost of revenue, was $667, $592 and $417 for the years ended December 31, 2015, 2014 and 2013, respectively. In December 2015, the U.S. government approved the suspension of the excise tax on medical device sales beginning January 1, 2016 through December 31, 2017.

Net Loss Per Share—Basic and diluted net loss per share is computed in accordance with FASB ASC 260 "Earnings Per Share" (ASC 260) by dividing the net loss by the weighted average number of common shares outstanding during the period. Since the Company has experienced net losses for all periods presented, net loss per share excludes the effect of 4,255, 3,772 and 2,721 stock options and restricted stock shares as of December 31, 2015, 2014, and 2013, respectively, because they are anti-dilutive. Therefore, the number of shares calculated for basic net loss per share is also used for the diluted net loss per share calculation.

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

Accumulated other comprehensive loss consisted of the following:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Total accumulated other comprehensive (loss) income at beginning of period | $ (348) | $ (139) | $ 77 |
| Unrealized (losses) gains on investments | | | |
| Balance at beginning of period | $ (54) | $ (6) | $ 1 |
| Other comprehensive income (loss) before reclassifications | 15 | (48) | (7) |
| Amounts reclassified from accumulated other comprehensive income (loss) to other income | — | — | — |
| Balance at end of period | $ (39) | $ (54) | $ (6) |
| Foreign currency translation adjustment | | | |
| Balance at beginning of period | $ (294) | $ (133) | $ 76 |
| Other comprehensive income (loss) before reclassifications | 156 | 362 | (478) |
| Amounts reclassified from accumulated other comprehensive income (loss) to other income | (434) | (523) | 269 |
| Balance at end of period | $ (572) | $ (294) | $ (133) |
| Total accumulated other comprehensive loss at end of period | $ (611) | $ (348) | $ (139) |

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

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 and research related to new and existing products or concepts, preclinical studies, clinical trials, healthcare compliance and regulatory affairs.

Advertising Costs— The Company expenses advertising costs as incurred. Advertising costs were not significant during the years ended December 31, 2015, 2014 and 2013, respectively.

Share-Based Compensation—The Company follows FASB ASC 718 "Compensation-Stock Compensation" (ASC 718) to record share-based compensation for all employee share-based payment awards, including stock options, restricted stock and stock purchases related to an employee stock purchase plan, based on estimated fair values. The Company's share-based compensation expense recognized under ASC 718 for the years ended December 31, 2015, 2014 and 2013 was $8,997, $7,571 and $3,080, respectively, on a before and after tax basis.

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

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

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

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. The Company estimates the number of shares to be purchased under the ESPP and records compensation expense based upon the fair value of the stock at the beginning of the purchase period using the Black-Scholes model.

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

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

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

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

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

In 2015 the FASB issued ASU 2015-10, “Technical Corrections and Improvements” (ASU 2015-10), which amends a wide range of topics in the FASB Accounting Standards Codification. The amendments make minor corrections or minor improvements to the Codification. The amendments in ASU 2015-10 that require transition guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments are effective upon the issuance of ASU 2015-10. The Company has reviewed the amendments in ASU 2015-10 and has determined that the new guidance does not have a material impact on the Company’s financial reporting.

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

In August 2015 the FASB issued ASU 2015-15, “Interest – Imputation of Interest” (ASU 2015-15), which clarifies the Security and Exchange Commission staff’s position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03. ASU 2015-15 was effective upon issuance. The Company has determined that the new guidance does not have a material impact on its financial reporting.

In September 2015 the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” (ASU 2015-16), which simplifies the accounting for measurement-period adjustments. Under ASU 2015-16, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, and must be applied prospectively to adjustments to provisional amounts that occur after the effective date. Early adoption is permitted for financial statements that have not been issued. The Company will consider the new guidance in its accounting and financial reporting for acquisitions.

In November 2015 the FASB issued ASU 2015-17, “Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes” (ASU 2015-17), which requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Also, companies will no longer allocate valuation allowances between current and noncurrent deferred tax assets because those allowances also will be classified as noncurrent. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for financial statements that have not been issued. The Company is evaluating the impact of the provisions of ASU 2015-17 on its consolidated financial position and related disclosures.

In January 2016 the FASB issued ASU 2016-01, “Financial Instruments — Overall — Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01), which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Although the ASU retains many current requirements, it significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The Company is evaluating the impact of ASU 2016-01 on its consolidated financial position and related disclosures.

In February 2016 the FASB issued ASU 2016-02, “Leases” (ASU 2016-02) which requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today’s accounting. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. The Company will review the provisions of ASU 2016-02 to determine the impact on its consolidated financial position and related disclosures.

3. FAIR VALUE

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

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The valuation under this approach does not entail a significant degree of judgment.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The valuation technique for the Company’s Level 2 assets is based on quoted market prices for similar assets from observable pricing sources at the reporting date.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The fair value of the Company’s Level 3 derivative instruments (non-employee stock options) are estimated on the grant date using the Black-Scholes model, and they are revalued at the end of each reporting period using the Black-Scholes model. The fair value of the Company’s Level 3 contingent consideration liabilities was estimated on the respective acquisition dates of Endoscopic Technologies, Inc. (Estech) and nContact Surgical, Inc. (nContact), and is revalued at the end of each subsequent reporting period (see Note 5 – Business Combinations for further information).

In accordance with ASC 820, the following table represents the Company’s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Money market funds | $ — | $ 18,572 | $ — | $ 18,572 |
| U.S. government agencies and securities | 1,590 | — | — | 1,590 |
| Corporate bonds | — | 16,930 | — | 16,930 |
| Total assets | $ 1,590 | $ 35,502 | $ — | $ 37,092 |

| | | | | |
|---|---|---|---|---|
| Liabilities: | | | | |
| Acquisition-related contingent consideration | $ — | $ — | $ 40,207 | $ 40,207 |
| Total liabilities | $ — | $ — | $ 40,207 | $ 40,207 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

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

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Money market funds | $ — | $ 23,692 | $ — | $ 23,692 |
| Commercial paper | — | 1,800 | — | 1,800 |
| U.S. government agencies and securities | 3,022 | — | — | 3,022 |
| Corporate bonds | — | 35,337 | — | 35,337 |
| Total assets | $ 3,022 | $ 60,829 | $ — | $ 63,851 |
| Liabilities: | | | | |
| Derivative instruments | $ — | $ — | $ 120 | $ 120 |
| Total liabilities | $ — | $ — | $ 120 | $ 120 |

There were no changes in the levels or methodology of measurement of financial assets and liabilities during the twelve months ended December 31, 2015 and 2014.

Derivative Instruments. Vested non-employee options historically issued by the Company are accounted for as derivative liabilities and remeasured at fair value through earnings at each reporting period until exercised or forfeited. All vested non-employee options have been exercised as of December 31, 2015.

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Beginning Balance – January 1 | $ 120 | $ 350 | $ 78 |
| Total (gains) losses included in earnings | 57 | (183) | 272 |
| Exercises | (177) | (47) | — |
| Reclassification from equity to liability when fully vested | — | — | — |
| Ending Balance – December 31 | $ — | $ 120 | $ 350 |

Acquisition-Related Contingent Consideration. Contingent consideration arrangements obligate the Company to pay former shareholders of an acquired entity if specified future events occur or conditions are met, such as the achievement of certain technological milestones or the achievement of targeted revenue milestones. The Company measures such liabilities using unobservable inputs, applying the 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 the Consolidated Statements of Operations and Comprehensive Loss.

The Company acquired Estech on December 31, 2013. The aggregate consideration paid to Estech shareholders included up to $26,000 of contingent consideration to be paid based on the achievement of certain performance-based milestones in 2014 and 2015. The fair value of the Estech contingent consideration was determined to be $0, $0 and $8,032 as of December 31, 2015, 2014 and 2013, respectively.

The Company acquired nContact on October 13, 2015. The aggregate consideration paid to nContact shareholders includes up to $50,000 in contingent consideration based on completion of enrollment of the CONVERGE IDE trial and corresponding PMA approval by December 31, 2020. nContact shareholders are entitled to additional sales-based contingent consideration on revenue in excess of an annual growth rate of more than 25% through 2019. The total fair value of the nContact contingent consideration was determined to be $40,207 as of both the acquisition date and December 31, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Beginning Balance – January 1 | $ — | $ 8,032 | $ — |
| Amounts acquired | 40,207 | — | 8,032 |
| Transfers in (out) of Level 3 | — | — | — |
| Changes in fair value included in earnings | — | (8,032) | — |
| Ending Balance – December 31 | $ 40,207 | $ — | $ 8,032 |

4. INVESTMENTS

Investments as of December 31, 2015 consisted of the following:

| | Cost Basis | Unrealized Gains (Losses) | Fair Value |
|---|---|---|---|
| Corporate bonds | $ 16,963 | $ (33) | $ 16,930 |
| U.S. government agencies and securities | 1,596 | (6) | 1,590 |
| Total | $ 18,559 | $ (39) | $ 18,520 |

Investments as of December 31, 2014 consisted of the following:

| | Cost Basis | Unrealized Gains (Losses) | Fair Value |
|---|---|---|---|
| Corporate bonds | $ 35,389 | $ (52) | $ 35,337 |
| U.S. government agencies and securities | 3,024 | (2) | 3,022 |
| Commercial paper | 1,800 | — | 1,800 |
| Total | $ 40,213 | $ (54) | $ 40,159 |

The Company has not experienced any significant realized gains or losses on its investments in the periods presented in the Consolidated Statements of Operations and Comprehensive Loss. Long term investments held by the Company have maturities between one and two years at both December 31, 2015 and 2014.

5. BUSINESS COMBINATIONS

nContact Surgical, Inc. (nContact). On October 13, 2015 the Company completed its acquisition of nContact, pursuant to a merger agreement (Agreement) under which the Company acquired 100% of the outstanding equity interests of nContact. Incorporated in 2004 and based in Morrisville, North Carolina, nContact developed and marketed a portfolio of innovative devices that provide for less invasive ablation options for the treatment of cardiac arrhythmias. The company's technology is used in the Convergent procedure, a multi-disciplinary therapy in which a closed-chest surgical epicardial ablation is performed, and then complemented by an endocardial catheter ablation performed by an electrophysiologist. The CONVERGE IDE clinical trial is currently being conducted and is the first head-to-head study to evaluate the Convergent procedure versus catheter ablation in patients with persistent Afib.

AtriCure's management believes the acquisition of nContact will expand and strengthen the Company's presence in the Afib market, reinforce the Company's commitment to clinical science, and provide improved market access and additional collaboration opportunities with cardiac surgeons and electrophysiologists. The combination of the two companies expands AtriCure's addressable market with the addition of proven technology that treats an under-served population of patients, complements the Company's current product portfolio and minimally invasive (MIS) intellectual property portfolio, accelerates and sustains the Company's revenue growth rate, and drives continued margin expansion and worldwide operating leverage opportunities.

The total consideration paid to nContact's former shareholders at acquisition date was 3,757 shares of AtriCure common stock, valued at $69,054 at the closing of the transaction, and $7,581 in cash. Although the cash paid at acquisition was subject to adjustment

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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for net working capital balances outside of a specified range, no such adjustment was made as a result of the final net working capital delivered. In addition, the Agreement provides for the Company to pay contingent consideration, as follows:

- Trial Enrollment Milestone— $7,500 upon completion of patient enrollment of the CONVEGE IDE clinical trial. Such payment is due on or before 30 days following enrollment of the final patient.
- Regulatory Milestone— up to $42,500 upon the completion of the CONVERGE IDE clinical trial and receiving approval of a premarket approval (PMA) by the FDA for the EPi-Sense-AF Guided Coagulation System and/or any other nContact product with an indication for symptomatic persistent Afib or a similar or related indication. The full contingent consideration amount of $42,500 is only earned if such regulatory approvals are received on or before January 1, 2020. The potential contingent consideration is reduced by 8.33% (or one-twelfth) each month following January 2020, and is reduced to zero if the regulatory milestone is achieved after December 31, 2020. Any payment of the regulatory contingent consideration is due on or before 30 days following the receipt of the related PMA approval.
- Commercial Milestone— for the calendar years 2016 through 2019, nContact revenues in excess of specified target revenue amounts, which approximate 25% annual revenue growth, will result in contingent consideration equal to 1.5 times the revenues in excess of target. Payments of contingent consideration under the annual commercial milestones are due within 65 days of each calendar year end.

Subject to the terms and conditions of the Agreement, all contingent consideration can be paid in cash and AtriCure common stock. The Agreement limits the total number of shares of AtriCure common stock issued in connection with the acquisition to 5,660.

The Company accounted for the acquisition in accordance with FASB ASC 805, “Accounting for Business Combinations”. The assets acquired, liabilities assumed and the estimated future contingent consideration obligation were recorded at their respective fair values as of the date of acquisition. The process for estimating fair values of identifiable intangible assets and certain tangible assets and assumed liabilities requires the use of judgment in determining the appropriate assumptions and estimates. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company’s results of operations.

The components of the aggregate purchase price for the nContact acquisition were as follows:

| | |
|---|---|
| Fair value of AtriCure common stock issued at closing | $ 69,054 |
| Cash | 7,581 |
| Fair value of contingent consideration liabilities | 40,207 |

| | |
|---|---|
| Total purchase price | $ 116,842 |

The fair value of contingent consideration liabilities was determined by applying an income valuation approach, including the discounted cash flow technique probability-weighted scenario method. Key assumptions in the valuation of contingent consideration liabilities are based on management’s judgment and estimates, and include the probability of achievement of each of the milestones, projected revenues from the acquisition, and the discount rates, which ranged from 3% to 14%, reflecting the inherent risks of achieving the respective milestones. These assumptions are not observable in the market, thus represent a Level 3 measurement within the fair value hierarchy.

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As of December 31, 2015, the purchase price allocation has not yet been finalized as the Company evaluates certain tax attributes of nContact. The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed on the acquisition date:

| | October 13, 2015 |
|---|---|
| Accounts receivable | $ 1,450 |
| Inventories | 682 |
| Other current assets | 166 |
| Property and equipment | 311 |
| Intangible assets | 46,200 |
| Other assets | 7 |
| Total identifiable assets | $ 48,816 |
| Accounts payable | $ 256 |
| Accrued liabilities | 1,589 |
| Total liabilities assumed | $ 1,845 |
| Net identifiable assets acquired | $ 46,971 |
| Goodwill | 69,871 |
| Total consideration | $ 116,842 |

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the acquisition date. Deferred tax assets and liabilities were also recognized at acquisition date for the future tax consequences attributable to differences between the above financial statement carrying amounts of existing assets and liabilities and their respective tax bases and acquired operating loss and tax credit carryforwards of nContact. At acquisition, nContact had approximately $59,000 of net operating loss carryforwards, which begin to expire in 2025 and are subject to certain limitations under Internal Revenue Code Section 382. The Company recorded a full valuation allowance against the net deferred tax assets at acquisition.

The valuation of the intangible assets acquired and related amortization periods are as follows:

| | Valuation | Amortization Term (in years) |
|---|---|---|
| SUBTLE access technology | $ 2,179 | 5 |
| IPR&D | 44,021 | |
| Total | $ 46,200 | |

The fair value of the SUBTLE access technology and IPR&D both were estimated using an income approach. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. The Company believes that the level and timing of cash flows related to each asset appropriately reflects market participant assumptions, and such cash flows were discounted at rates considered appropriate given the inherent risks associated with each type of intangible asset. The SUBTLE access technology asset is amortized on a straight-line basis over its estimated useful life. The IPR&D asset, which is accounted for as an indefinite-lived intangible asset until completion or abandonment of the project, represents an estimate of the fair value of the PMA approval from the in-process CONVERGE IDE clinical trial. Upon completion of this development project, the IPR&D is amortized over its estimated useful life. If the IPR&D project is abandoned, the related IPR&D asset would be written off.

The Company recorded the excess of the aggregate purchase price over the estimated fair values of the identifiable net assets acquired as goodwill. Goodwill is primarily attributable to the benefits the Company expects to realize by enhancing its product offering and addressable markets, thereby contributing to an expanded revenue base and improved margins. None of the goodwill recorded in the acquisition is deductible for income tax purposes. As discussed in Note 1, the Company accounts for goodwill in a single reporting unit representing the Company as a whole.

The operating results of nContact, including $2,192 of revenue, are included in the Consolidated Statements of Operations and Comprehensive Loss beginning October 14, 2015. The Consolidated Balance Sheet as of December 31, 2015 reflects the acquisition of nContact. The Company recognized approximately $2,489 of acquisition-related costs that were expensed during 2015. The costs consisted of $1,767 for investment bank fees and expenses and $722 for legal, audit, tax and other costs. These costs are included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations and Comprehensive Loss.

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The following supplemental pro forma information presents the financial results of the Company for the years ended December 31, 2015 and 2014 as if the acquisition of nContact had occurred on January 1, 2014.

| | Year Ended December 31, (unaudited) | |
|---|---|---|
| | 2015 | 2014 |
| Revenue | $ 137,882 | $ 115,979 |
| Net loss | (30,745) | (21,438) |
| Basic and diluted net loss per share | (0.99) | (0.71) |

Certain pro forma adjustments have been made when calculating the amounts above to reflect the impact of the purchase transaction, primarily consisting of inclusion of amortization of intangible assets with determinable lives and exclusion of nContact's interest expense incurred on debt paid off in the acquisition. The Company also eliminated transaction expenses incurred by both AtriCure and nContact. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2014, nor are they indicative of any future results. The pro forma information does not include any adjustment for potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition.

Endoscopic Technologies, Inc. (Estech). On December 31, 2013, the Company completed its acquisition of Estech. The aggregate consideration paid to Estech shareholders included up to $26,000 of contingent consideration to be paid based on the achievement of certain performance-based milestones in 2014 and 2015. The fair value of the contingent consideration was estimated using an expected present value approach to estimate an expected value. The Company recorded $8,032 in contingent consideration at acquisition, and, based on results during 2014, reduced the value of the contingent consideration to $0 at December 31, 2014. The $8,032 adjustment was recorded as a reduction of selling, general and administrative expenses in the accompanying 2014 Consolidated Statement of Operations and Comprehensive Loss. At December 31, 2015, the Company's liability for the Estech contingent consideration remains at $0 based on the final analysis of actual results against the specified milestones in 2014 and 2015.

6. INTANGIBLE ASSETS AND GOODWILL

The following table provides a summary of the Company’s intangible assets at December 31:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Non-compete agreement | $ 100 | $ 100 | $ 100 | $ 93 |
| Fusion technology | 9,242 | 1,848 | 9,242 | 924 |
| Clamp & probe technology | 829 | 552 | 829 | 276 |
| Estech trade name | 208 | 208 | 208 | 208 |
| SUBTLE access technology | 2,179 | 96 | — | — |
| IPR&D | 44,021 | — | — | — |
| Total | $ 56,579 | $ 2,804 | $ 10,379 | $ 1,501 |

For the years ended December 31, 2015, 2014 and 2013, amortization expense related to intangible assets with definite lives was $1,303, $1,421 and $12, respectively. The IPR&D asset is not amortized until the completion of the project.

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

| | |
|---|---|
| 2016 | $ 1,644 |
| 2017 | 1,367 |
| 2018 | 1,367 |
| 2019 | 1,367 |
| 2020 | 1,235 |
| 2021 and thereafter | 2,774 |
| Total | $ 9,754 |

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The following table provides a summary of the Company's goodwill, which is not amortized, but rather tested annually for impairment:

| | |
|---|---|
| Net carrying amount as of December 31, 2013 | $ 35,386 |
| Additions | — |
| Net carrying amount as of December 31, 2014 | 35,386 |
| Additions | 69,871 |
| Net carrying amount as of December 31, 2015 | $ 105,257 |

7. INVENTORIES

Inventories consisted of the following at December 31:

| | 2015 | 2014 |
|---|---|---|
| Raw materials | $ 6,159 | $ 4,429 |
| Work in process | 974 | 1,397 |
| Finished goods | 10,526 | 8,431 |
| Inventories | $ 17,659 | $ 14,257 |

8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | 2015 | 2014 |
|---|---|---|
| Building under capital lease | $ 14,250 | $ — |
| Generators and other capital equipment | 10,041 | 8,578 |
| Computer and other office equipment | 4,303 | 2,436 |
| Furniture and fixtures | 3,211 | 488 |
| Machinery, equipment and vehicles | 2,551 | 2,604 |
| Leasehold improvements | 2,151 | 329 |
| Construction in progress | 1,978 | 4,642 |
| Equipment under capital leases | 212 | 162 |
| Total | 38,697 | 19,239 |
| Less accumulated depreciation | (7,418) | (7,687) |
| Property and equipment, net | $ 31,279 | $ 11,552 |

Property and equipment depreciation expense was $4,975, $3,353 and $2,008 for the years ended December 31, 2015, 2014 and 2013, respectively. Depreciation related to generators and other capital equipment was $2,944, $2,172 and $1,251 in 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, the net carrying amount of generators and other capital equipment was $5,447 and $4,141, respectively.

Included in construction in progress as of December 31, 2014 are $4,234 of costs related to the construction of the Company's new headquarters building, which were placed in service and transferred to Building under capital lease in 2015 (see Note 10 – Indebtedness).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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## 9. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at December 31:

| | 2015 | 2014 |
|---|---|---|
| Accrued bonus | $ 6,088 | $ 4,915 |
| Accrued commissions | 6,061 | 4,477 |
| Accrued payroll and employee-related expenses | 4,021 | 2,281 |
| Accrued taxes and value-added taxes payable | 912 | 1,272 |
| Other accrued liabilities | 723 | 399 |
| Accrued royalties | 382 | 442 |
| Sales returns allowance | 207 | 135 |
| Accrued non-employee stock options | — | 120 |
| Total | $ 18,394 | $ 14,041 |

## 10. INDEBTEDNESS

Bank Credit Facility. The Company has a debt agreement (Loan Agreement) with Silicon Valley Bank (SVB). The Loan Agreement, as amended, restated and modified, includes a $15,000 revolving credit facility which matures on April 30, 2018. Borrowing availability under the revolving credit facility is based on the lesser of $15,000 or a borrowing base calculation as defined by the Loan Agreement. As of December 31, 2015, the Company had no borrowings under the revolving credit facility and had borrowing availability of $14,559. The applicable interest rate is 3.5%.

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

The Loan Agreement, as amended restated and modified, contains covenants that include, among others, covenants that limit the Company’s ability to dispose of assets, enter into mergers or acquisitions, incur indebtedness, incur liens, pay dividends or make distributions on the Company’s capital stock, make investments or loans, and enter into certain affiliate transactions, in each case subject to customary exceptions for a credit facility of this size and type. Additional covenants apply when the Company has outstanding borrowings under the revolving credit facility or when the Company holds less than $20,000 in cash and investments with SVB. Financial covenants under the credit facility include a minimum EBITDA and a minimum liquidity ratio. Further, a minimum fixed charge ratio applies when the Company achieves specific covenant milestones. None of the covenants must be applied as of December 31, 2015. The occurrence of an event of default could result in an increase to the applicable interest rate by 3.0%, an acceleration of all obligations under the Loan Agreement, an obligation of the Company to repay all obligations in full and a right by SVB to exercise all remedies available to it under the Loan Agreement and related agreements including any Guaranty or Guarantor Security Agreement. Specified assets have been pledged as collateral.

As of December 31, 2015, the Company has an outstanding letter of credit of $1,250 related to the Company’s new headquarters lease in Mason, Ohio. The letter of credit may be reduced or removed entirely based on the Company’s future financial performance, as specified in the lease agreement.

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

Capital Lease Obligations. As of December 31, 2015 the Company had capital leases for its corporate headquarters building and computer equipment that expire at various terms through 2030.

In August 2014 the Company and LM-VP AtriCure, LLC (Landlord), a third party unrelated to the Company, entered into a new building lease (Mason Lease) in order to re-locate its headquarters and West Chester, Ohio facilities to a building constructed on Innovation Way in Mason, Ohio and occupied exclusively by the Company. Construction of the approximately 92 square-foot building was substantially completed and the lease term began in October 2015.

The term of the Mason Lease is fifteen years with three separate five-year renewal options, at the Company’s option. The amount of initial annual base rent of $1,353 is payable in monthly installments and is subject to a 2% increase each year during the initial term of the agreement. Upon each renewal, the amount of rent payable will be agreed upon by the Company and Landlord or, if not so agreed upon, by an appraiser.

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Under the Mason Lease, the Company is responsible for paying real estate taxes, insurance, utilities, operating expenses, and most building repairs and maintenance. The Company was also responsible for paying the first $750 of construction related tenant improvement costs, as well as amounts in excess of the estimated total cost of construction, as defined by the Mason Lease.

The Company was deemed the owner of the project during the construction period. As a result, project costs incurred during construction the building were included in property and equipment and the corresponding financing obligation was included in other current liabilities in the Consolidated Balance Sheet as of December 31, 2014. An increase in purchases of building under construction and proceeds from the construction financing obligation are also included in the Consolidated Statement of Cash Flows. At the completion of construction, the Company evaluated the lease agreement under guidance in FASB ASC 840, "Leases", and included the current and noncurrent portions of the Mason Lease obligation within capital leases and the value of the underlying asset in Property and Equipment in the Consolidated Balance Sheet as of December 31, 2015.

The cost of the leased assets, both building and computer equipment, under lease at December 31, 2015 was $14,462. The assets are depreciated over their estimated useful lives, which equal the terms of the respective leases. Accumulated amortization on the capital leases was $349 at December 31, 2015.

Future maturities on capital lease obligations are projected as follows:

| | | |
|---|---|---|
| 2016 | $ | 1,417 |
| 2017 | | 1,425 |
| 2018 | | 1,439 |
| 2019 | | 1,457 |
| 2020 | | 1,478 |
| 2021 and thereafter | | 15,894 |
| Total payments | $ | 23,110 |
| Imputed interest | | (8,950) |
| Net capital lease obligations, of which $450 is current and $13,710 is noncurrent | $ | 14,160 |

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases certain office, manufacturing and warehouse facilities and equipment under noncancelable operating leases that expire at various terms through 2021. Future minimum lease payments under non-cancelable operating leases are projected as follows:

| | |
|---|---|
| 2016 | $ 934 |
| 2017 | 663 |
| 2018 | 724 |
| 2019 | 737 |
| 2020 | 556 |
| 2021 and thereafter | 251 |
| Total | $ 3,865 |

Rent expense was approximately $1,515, $1,331 and $870 in 2015, 2014, and 2013, respectively.

Royalty Agreements. The Company has certain royalty agreements in place with terms that include payment of royalties based on product revenue from sales of specified current products. The royalty agreements have effective dates as early as 2003 and terms ranging from three years to at least twenty years. The royalties range from 0.75% to 5% of specified product sales. One of the agreements includes minimum quarterly payments of $50 through 2015 and a maximum of $2,000 in total royalties over the term of the agreement. Parties to the royalty agreements have the right at any time to terminate the agreement immediately for cause. Royalty expense of $1,799, $1,322 and $962 was recorded as part of cost of revenue for the years ended December 31, 2015, 2014 and 2013, respectively.

Purchase Agreements. The Company enters into standard purchase agreements with certain vendors in the ordinary course of business. Outstanding commitments at December 31, 2015 were not significant.

Legal. The Company is not party to any material pending or threatened litigation, except for the matter described below. The Company may, from time to time, become a party to additional legal proceedings.

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

Department of Justice Investigation

In October 2008 the Company received a letter from the Department of Justice (DOJ) informing the Company that it was conducting an investigation for potential False Claims Act (FCA) and common law violations relating to its surgical ablation devices. The Company cooperated with the investigation and operated its business in the ordinary course during the investigation. In December 2009 the Company reached a tentative settlement with the DOJ to resolve the investigation and recorded a liability. The settlement was finalized pursuant to the preliminary terms in February 2010, and the resulting settlement agreement definitively resolved all claims related to the DOJ investigation. The Company did not admit nor will it admit to any wrongdoing in connection with the settlement. The Company completed making payments totaling $4,350 (including interest) in 2014 and has no remaining financial liability. In June 2015 the Company received confirmation from the Office of Inspector General that the Company had satisfactorily completed all obligations under the five-year Corporate Integrity Agreement entered into in 2010.

12. INCOME TAXES

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

The detail of deferred tax assets and liabilities at December 31 is as follows:

| | 2015 | 2014 |
|---|---|---|
| Deferred tax assets (liabilities): | | |
| Net operating loss carryforward | $ 78,178 | $ 49,921 |
| Research and development and AMT credit carryforwards, net | 5,677 | 4,799 |
| Equity compensation | 6,618 | 4,497 |
| Accruals and reserves | 539 | 536 |

| | | |
|---|---|---|
| Inventories | 1,310 | 669 |
| Intangible assets | (16,953) | (149) |
| Property and equipment, net | (1,740) | (760) |
| Other, net | 53 | 41 |
| Subtotal | 73,682 | 59,554 |
| Less valuation allowance | (73,682) | (59,554) |
| Total | $ — | $ — |

The Company’s provision for income taxes is as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Current income tax expense | $ 36 | $ 33 | $ 18 |
| Deferred tax benefit | (8,507) | (5,306) | (3,728) |
| Increase in valuation allowance | 8,507 | 5,306 | 3,728 |
| Total income tax expense | $ 36 | $ 33 | $ 18 |

The Company has a federal net operating loss carryforward of $205,278 which will begin to expire in 2021 and state net operating loss carryforwards of $136,323 which have varying expirations ranging from five years to twenty years. At December 31, 2015 there were $5,790 of unrecognized deferred tax assets that arose from tax deductions for equity compensation in excess of compensation recognized for financial reporting during years when net operating losses were created. Additional paid in capital will be increased if such deferred tax assets are realized and reduce current tax payable. A portion of the Company’s federal and state net operating loss carryforwards are subject to certain limitations under Internal Revenue Code Sections 382 and 383. The Company also has a foreign net operating loss carryforward of approximately $17,919 of which $970 expires in 2016. Additionally, the Company has a federal research and development credit carryforward of $5,575 which will begin to expire in 2022.

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

The Company's 2015, 2014 and 2013 effective income tax rates differ from the federal statutory rate as follows:

| | 2015 | | | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| Federal tax at statutory rate | 34.00 | % | $ (9,240) | 34.00 | % | $ (5,501) | 34.00 | % | $ (3,891) |
| Federal R&D credit | 3.23 | | (878) | 2.32 | | (374) | 3.35 | | (383) |
| Valuation allowance | (31.30) | | 8,507 | (32.80) | | 5,306 | (29.63) | | 3,391 |
| State income taxes | 1.38 | | (375) | 2.68 | | (433) | 0.04 | | (5) |
| Foreign NOL rate change | (2.02) | | 549 | (4.29) | | 694 | 2.47 | | (283) |
| Foreign tax rate differential | (1.99) | | 542 | (2.83) | | 458 | (1.60) | | 183 |
| Other | (3.43) | | 931 | 0.72 | | (117) | (8.79) | | 1,006 |
| Effective tax rate | (0.13) | % | $ 36 | (0.20) | % | $ 33 | (0.16) | % | $ 18 |

The Company's pre-tax book loss for domestic and international operations was ($21,157) and ($6,019), respectively, for 2015, ($11,085) and ($5,093), respectively, for 2014 and ($9,409) and ($2,035), respectively, for 2013.

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

Federal, state, and local tax returns of the Company are routinely subject to examination by various taxing authorities. Federal and foreign income tax returns for periods beginning in 2012 are open for examination. However, taxing authorities have the ability to adjust net operating loss and tax credit carryforwards from years prior to these periods. The Company has not recognized certain tax benefits because of the uncertainty of realizing the entire value of the of the tax position taken on income tax returns upon review by the taxing authorities.

A reconciliation of the change in federal and state unrecognized tax benefits for 2015, 2014 and 2013 is presented below:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Balance at the beginning of the year | $ 1,982 | $ 1,982 | $ — |
| Increases (decreases) for prior year tax positions | — | — | 1,982 |
| Increases (decreases) for current year tax positions | — | — | — |
| Increases (decreases) related to settlements | — | — | — |
| Decreases related to statute lapse | — | — | — |
| Balance at the end of the year | $ 1,982 | $ 1,982 | $ 1,982 |

There are no amounts included in the balance of unrecognized tax benefits at December 31, 2015, 2014 and 2013 that, if recognized, would affect the effective tax rate. Included in the balance of unrecognized tax benefits at December 31, 2015 are $1,982 of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes and valuation allowance. There are no accrued interest and penalties associated with the unrecognized tax benefit. The Company does not anticipate that there will be any significant adjustments to its recorded unrecognized tax benefits in the next twelve months.

## 13. CONCENTRATIONS

During fiscal 2015, 2014 and 2013 approximately 12.9%, 13.6% and 20.4%, respectively, of the Company’s total net revenue was derived from its top ten customers. During 2015, 2014 and 2013 no individual customer accounted for more than 10% of the Company’s revenue. No individual customer accounted for more than 10% of the Company’s accounts receivable as of December 31, 2015 and 2014.

The Company maintains cash and cash equivalents balances at financial institutions which at times exceed FDIC limits. As of December 31, 2015, $23,608 of the cash and cash equivalents balance was in excess of the FDIC limits.

## 14. EMPLOYEE BENEFIT PLANS

The Company sponsors the AtriCure, Inc. 401(k) Plan (401(k) Plan), a defined contribution plan covering substantially all U.S. employees of the Company. Eligible employees may contribute pre-tax annual compensation up to specified maximums under the Internal Revenue Code. During 2015, 2014 and 2013 the Company made matching contributions of 50% of the first 6% of employee

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

contributions to the 401(k) Plan. The Company's matching contributions expensed during 2015, 2014 and 2013 were $1,007, $807 and $606, respectively. Additional amounts may be contributed to the 401(k) Plan at the discretion of the Company's board of directors. No such discretionary contributions were made during 2015, 2014 or 2013. The Estech 401(k) plan acquired by the Company through its acquisition of Estech was rolled into the 401(k) Plan during 2014. The Company also provides retirement benefits for AtriCure Europe employees. Total contributions to retirement plans for AtriCure Europe employees were $133, $176 and $176 in 2015, 2014 and 2013, respectively.

## 15. EQUITY COMPENSATION PLANS

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

### 2005 Plan and 2014 Plan

The Company granted awards under the 2005 Plan until the 2014 Annual Meeting of Stockholders at which stockholders adopted the 2014 Plan. Pursuant to its terms, the 2014 Plan supersedes and replaces the 2005 Plan. Under the 2014 Plan, the Board of Directors may grant incentive stock options to employees and any parent or subsidiary's employees, and may grant nonstatutory stock options, restricted stock or stock appreciation rights to employees, directors and consultants of the Company and any parent or subsidiary's employees, directors and consultants. The administrator (currently the Compensation Committee of the Board of Directors) has the power to determine the terms of any awards, including the number of shares subject to each award, the exercisability of the awards and the form of consideration.

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

As of December 31, 2015, 8,949 shares of common stock had been reserved for issuance under the 2014 Plan. The shares authorized for issuance under the 2014 Plan include (a) shares reserved but unissued under the 2001 Plan as of August 10, 2005, (b) shares returned to the 2001 Plan as the result of the termination of options or the repurchase of shares issued under such plan, (c) shares reserved but unissued under the 2005 Plan as of May 14, 2014 and (d) 1,300 additional shares authorized under the 2014 Plan. As of December 31, 2015 there were 1,372 shares available for future grants under the plans.

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

Activity under the plans during 2015 was as follows:

| Time-Based Stock Options | Number of Shares Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2015 | 2,762 | $ 10.93 | | |
| Granted | 228 | 21.10 | | |
| Cancelled or forfeited | (13) | 15.17 | | |
| Exercised | (243) | 11.10 | | |
| Outstanding at December 31, 2015 | 2,734 | $ 11.75 | 6.15 | $ 29,331 |
| Vested and expected to vest | 2,660 | $ 11.57 | 6.09 | $ 28,974 |
| Exercisable at December 31, 2015 | 1,862 | $ 9.94 | 5.28 | $ 23,263 |

| Restricted Stock | Number of Shares Outstanding | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding at January 1, 2015 | 560 | $ 16.33 |
| Awarded | 648 | 17.82 |
| Forfeited | (2) | 17.76 |
| Released | (135) | 15.78 |
| Outstanding at December 31, 2015 | 1,071 | $ 17.30 |

| Performance Stock Options | Number of Shares Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2015 | 450 | $ 13.48 | | |
| Granted | — | — | | |
| Cancelled or forfeited | — | — | | |
| Exercised | — | — | | |
| Outstanding at December 31, 2015 | 450 | $ 13.48 | 7.46 | $ 4,034 |
| Exercisable at December 31, 2015 | 250 | $ 13.48 | 7.46 | $ 2,241 |

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

Activity under the plans during 2014 was as follows:

| Time-Based Stock Options | Number of Shares Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2014 | 2,423 | $ 8.61 | | |
| Granted | 603 | 19.54 | | |
| Cancelled or forfeited | (49) | 10.65 | | |
| Exercised | (215) | 8.94 | | |
| Outstanding at December 31, 2014 | 2,762 | $ 10.93 | 6.54 | $ 25,335 |
| Vested and expected to vest | 2,660 | $ 10.81 | 6.46 | $ 24,697 |
| Exercisable at December 31, 2014 | 1,516 | $ 8.85 | 4.86 | $ 16,836 |

| Restricted Stock | Number of Shares Outstanding | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding at January 1, 2014 | 248 | $ 7.75 |
| Awarded | 391 | 20.25 |
| Forfeited | (1) | 9.15 |
| Released | (78) | 8.79 |
| Outstanding at December 31, 2014 | 560 | $ 16.33 |

| Performance Stock Options | Number of Shares Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2014 | 225 | $ 5.91 | | |
| Granted | 225 | 21.04 | | |
| Cancelled or forfeited | — | — | | |

| | | | | |
|---|---|---|---|---|
| Exercised | — | — | | |
| Outstanding at December 31, 2014 | 450 | $ 13.48 | 8.50 | $ 3,161 |
| Exercisable at December 31, 2014 | 250 | $ 13.48 | 8.50 | $ 1,756 |

The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013 was $2,740, $2,311 and $951, respectively. As a result of the Company's tax position, no tax benefit was recognized related to the stock option exercises. For 2015, 2014 and 2013, $2,703, $1,916 and $1,718, respectively, in cash proceeds were included in the Company's Consolidated Statements of Cash Flows as a result of the exercise of stock options. The total fair value of restricted stock vested during 2015, 2014 and 2013 was $2,767, $1,434 and $1,442, respectively.

The exercise price per share of each option is equal to the fair market value of the underlying share on the date of grant. The Company issues registered shares of common stock to satisfy stock option exercises and restricted stock grants.

The Company recognized expense related to time-based stock options and restricted stock for 2015, 2014, and 2013 of $8,072, $5,383 and $2,489, respectively. As of December 31, 2015 there was $21,181 of unrecognized compensation costs related to non-vested stock option and restricted stock arrangements ($7,375 relating to stock options and $13,806 relating to restricted stock). This cost is expected to be recognized over a weighted-average period of 2.0 years for stock options and 2.6 years for restricted stock.

The Company awarded 225 performance options to its new President and Chief Executive Officer (CEO) when he joined the Company in November 2012, and an additional 225 performance options were awarded to the CEO in January 2014. The options expire ten years from the date of grant and vest in increments of 25 shares when the volume adjusted weighted average closing price of the common stock of the Company as reported by NASDAQ (or any other exchange on which the common stock of the Company is listed) for 30 consecutive days equals or exceeds each of $10.00 per share, $12.50 per share, $15.00 per share, $17.50 per share, $20.00 per share, $25.00 per share, $30.00 per share, $35.00 per share and $40.00 per share. In accordance with FASB ASC 718, a Monte Carlo simulation was performed for both grants to estimate the fair values, vesting terms and vesting probabilities for each

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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tranche of options. Expense calculated using these estimates is being recorded over the estimated vesting terms. The Company recognized expense related to the performance options during 2015, 2014 and 2013 of $546, $1,767 and $272, respectively. As of December 31, 2015 there was $313 of unrecognized compensation costs related to non-vested performance options. This cost is expected to be recognized over a weighted-average period of 0.25 to 2.05 years.

Employee Stock Purchase Plan (ESPP)

During 2008 the Company established the Employee Stock Purchase Plan which is available to eligible employees as defined in the ESPP. Under the ESPP, shares of the Company's common stock may be purchased at a discount (currently 15%) of the lesser of the closing price of the Company's common stock on the first trading day or the last trading day of the offering period. The offering period (currently six months) and the offering price are subject to change. Participants may not purchase more than $25 of the Company's common stock in a calendar year and, effective January 1, 2014, may not purchase a value of more than 3 shares during an offering period. Beginning on January 1, 2009 and on the first day of each fiscal year thereafter during the term of the ESPP, the number of shares available for sale under the ESPP shall be increased by the lesser of (i) two percent (2%) of the Company's outstanding shares of common stock as of the close of business on the last business day of the prior calendar year, not to exceed 600 shares, or (ii) a lesser amount determined by the Board of Directors. At December 31, 2015 there were 491 shares available for future issuance under the ESPP. Share-based compensation expense with respect to the ESPP was $379, $421 and $319 for 2015, 2014 and 2013, respectively.

Valuation and Expense Information Under FASB ASC 718

The following table summarizes share-based compensation expense related to employee share-based compensation under FASB ASC 718 for 2015, 2014 and 2013. This expense was allocated as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Cost of revenue | $ 416 | $ 335 | $ 246 |
| Research and development expenses | 1,373 | 937 | 230 |
| Selling, general and administrative expenses | 7,208 | 6,299 | 2,604 |
| Total | $ 8,997 | $ 7,571 | $ 3,080 |

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

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| Risk-free interest rate | 1.30 - 1.96 | % | 1.56 - 2.12 | % | 0.75 - 2.29 | % |
| Expected life of option (years) | 5.20 to 6.89 | | 5.31 to 6.72 | | 5.38 to 7.14 | |
| Expected volatility of stock | 46.00 - 67.00 | % | 47.00 - 70.00 | % | 69.00 | % |
| Weighted-average volatility | 54.75 | % | 69.19 | % | 69.00 | % |
| Dividend yield | 0.00 | % | 0.00 | % | 0.00 | % |

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

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

Based on the assumptions noted above, the weighted average estimated grant date fair value per share of the stock options and restricted stock granted for 2015, 2014 and 2013 was as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Stock options | $ 11.12 | $ 12.33 | $ 5.70 |
| Restricted stock | 17.82 | 20.25 | 9.35 |

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

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Strike price | $ 5.91 - 21.04 | $ 5.91 - 21.04 | $ 5.91 |
| Contractual term (years) | 10.00 | 10.00 | 10.00 |
| Expected volatility of stock | 60.50 - 69.60 % | 60.50 - 69.60 % | 69.60 % |
| Interest rate | 1.75 - 2.73 % | 1.75 - 2.73 % | 1.75 % |
| Dividend yield | 0.00 % | 0.00 % | 0.00 % |

The contractual term assumes that the performance options issued to the CEO of the Company in 2012 and 2014 will be held until expiration. Expected volatility is estimated based on the Company's trading history. The expected rate of return assumption is based upon the U.S. treasury yield curve at the time of grant for the expected option life.

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

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

16. SEGMENT AND GEOGRAPHIC INFORMATION

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

Revenue by geographic area was as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Revenue: | | | |
| United States | $ 102,212 | $ 80,203 | $ 62,311 |
| Europe | 17,180 | 18,163 | 11,384 |
| Asia | 9,510 | 8,552 | 7,665 |
| Other international | 853 | 536 | 529 |
| Total international | 27,543 | 27,251 | 19,578 |
| Total revenue | $ 129,755 | $ 107,454 | $ 81,889 |

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In Thousands, Except Per Share Amounts)

Domestic revenue by product type was as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Revenue: | | | |
| Open-heart ablation | $ 53,541 | $ 44,662 | $ 37,843 |
| Minimally invasive ablation | 21,564 | 16,050 | 13,648 |
| AtriClip | 24,377 | 16,675 | 10,820 |
| Total ablation and AtriClip | 99,482 | 77,387 | 62,311 |
| Valve tools | 2,730 | 2,816 | — |
| Total domestic | $ 102,212 | $ 80,203 | $ 62,311 |

International revenue by product type was as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Revenue: | | | |
| Open-heart ablation | $ 16,287 | $ 16,445 | $ 13,064 |
| Minimally invasive ablation | 7,964 | 7,881 | 5,354 |
| AtriClip | 2,868 | 2,158 | 1,160 |
| Total ablation and AtriClip | 27,119 | 26,484 | 19,578 |
| Valve tools | 424 | 767 | — |
| Total international | $ 27,543 | $ 27,251 | $ 19,578 |

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

17. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

| | For the Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31, | | June 30, | | September 30, | | December 31, | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Operating Results: | | | | | | | | |
| Revenue | $ 29,886 | $ 24,847 | $ 32,583 | $ 26,514 | $ 31,423 | $ 26,678 | $ 35,863 | $ 29,415 |
| Gross profit | 21,735 | 17,657 | 23,117 | 18,781 | 22,478 | 18,892 | 25,545 | 20,420 |
| Loss from operations | (5,144) | (7,925) | (4,819) | (2,853) | (6,127) | (803) | (10,630) | (4,779) |
| Net loss | (5,266) | (7,709) | (4,891) | (2,692) | (6,141) | (466) | (10,914) | (5,344) |
| Net loss per share (basic and diluted) | $ (0.19) | $ (0.31) | $ (0.18) | $ (0.10) | $ (0.22) | $ (0.02) | $ (0.36) | $ (0.20) |

Amounts may not sum to consolidated totals for the full year due to rounding. Basic and diluted net loss per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts will not necessarily equal the total for the year.

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

| | Beginning Balance | Additions | Deductions | Ending Balance |
|---|---|---|---|---|
| Reserve for sales returns and allowances | | | | |
| Year ended December 31, 2015 | $ 135 | $ 78 | $ 6 | $ 207 |
| Year ended December 31, 2014 | 105 | 34 | 4 | 135 |
| Year ended December 31, 2013 | 105 | — | — | 105 |
| Allowance for inventory valuation | | | | |
| Year ended December 31, 2015 | $ 522 | $ 720 | $ 399 | $ 843 |
| Year ended December 31, 2014 | 782 | 441 | 701 | 522 |
| Year ended December 31, 2013 | 267 | 921 | 406 | 782 |
| Valuation allowance for deferred tax assets | | | | |
| Year ended December 31, 2015 | $ 59,554 | $ 14,128 | $ — | $ 73,682 |
| Year ended December 31, 2014 | 54,211 | 5,343 | — | 59,554 |
| Year ended December 31, 2013 | 31,685 | 22,526 | — | 54,211 |

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements. The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. Management's assessment excluded the internal control over financial reporting at nContact, which was acquired on October 13, 2015. No matter how well designed, because of inherent limitations in all control systems, internal control over financial reporting may not prevent or detect misstatements should they occur. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the control procedures may deteriorate. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on such assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

Deloitte & Touche LLP, the Company's independent registered public accounting firm has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of its audit, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. The attestation report can be found on the following page as part of this Item 9A.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

AtriCure, Inc. and subsidiaries

Mason, Ohio

We have audited the internal control over financial reporting of AtriCure, Inc. and subsidiaries (the "Company") as of December 31, 2015, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Annual Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at nContact Surgical, Inc., which was acquired on October 13, 2015 and whose financial statements constitute 1.7 % and 1.3% of net and total assets, respectively, 1.7% of revenues, and approximately 4% of net loss of the consolidated financial statement amounts as of and for the year ended December 31, 2015. Accordingly, our audit did not include the internal control over financial reporting at nContact Surgical, Inc. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States).Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2015 of the Company and our report dated February 29, 2016 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio

February 29, 2016

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to the definitive proxy statement for our 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of 2015 (the "Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table summarizes information about our equity compensation plans as of December 31, 2015.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (1) (a) | Weighted-average exercise price of outstanding options, warrants and rights (2) (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders (3) | 4,255,243 | $ 12 | 1,371,596 |
| Equity compensation plans not approved by security holders | — | — | — |

| | | | |
|---|---|---|---|
| Total | 4,255,243 | $ 12 | 1,371,596 |

(1) Represents outstanding stock options and restricted stock as of December 31, 2015.
(2) The weighted average exercise price is calculated without taking into account restricted stock that will become issuable, without any cash consideration or other payment, as vesting requirements are achieved.
(3) Amounts include awards under our 2001 Stock Option Plan, 2005 Equity Incentive Plan and 2014 Stock Incentive Plan but exclude shares purchased under our 2008 Employee Stock Purchase Plan.

The remaining information required by this Item is incorporated by reference to the Proxy Statement.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the Proxy Statement.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) The financial statements required by Item 15(a) are filed in Item 8 of this Form 10-K.

(2) The financial statement schedules required by Item 15(a) are filed in Item 8 of this Form 10-K.

(3) The following exhibits are included in this Form 10-K or incorporated by reference in this Form 10-K:

| Exhibit No. | Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation (incorporated by reference to our Registration Statement on Form S-1 (Registration No. 333-124197), filed on April 20, 2005). |
| 3.2 | Second Amended and Restated Bylaws (incorporated by reference to our Registration Statement on Form S-1 (Registration No. 333-124197) filed on April 20, 2005). |
| 3.3 | Third Amended and Restated Bylaws (incorporated by reference to our Registration Statement on Form S-1 (Registration No. 333-124197) filed on April 20, 2005). |
| 4.2 | Warrant to purchase AtriCure, Inc. common stock issued to Silicon Valley Bank on May 1, 2009 (incorporated by reference to our Quarterly Report on Form 10-Q, filed on August 10, 2009). |
| 10.1# | 2001 Stock Option Plan (incorporated by reference to Amendment No. 1 to our Registration Statement on Form S-1 (Registration No. 333-124197), filed on June 14, 2005). |
| 10.2# | Agreement, dated as of July 18, 2006, by and between AtriCure, Inc. and the Cleveland Clinic (incorporated by reference to our Current Report on Form 8-K, filed on July 20, 2006). |
| 10.3# | Amendment No. 1, dated as of December 1, 2008, to Agreement dated as of July 18, 2006 by and between AtriCure, Inc. and the Cleveland Clinic (incorporated by reference to our Annual Report on Form 10-K filed on March 16, 2009). |
| 10.4# | Amendment No. 2, effective as of December 28, 2009, to Agreement dated as of July 18, 2006 by and between AtriCure, Inc. and the Cleveland Clinic (incorporated by reference to our Annual Report on Form 10-K filed on March 30, 2010). |
| 10.5# | Employment Agreement, dated as of January 16, 2012, between AtriCure, Inc. and Andrew L. Lux (incorporated by reference to our Current Report on Form 8-K, filed on January 17, 2012). |
| 10.6# | Employment Agreement, dated as of November 1, 2012, between AtriCure, Inc. and Michael H. Carrel (incorporated by reference to our Current Report on Form 8-K, filed on November 1, 2012). |
| 10.7# | 2005 Equity Incentive Plan, as amended on September 19, 2007 and on March 6, 2013 (incorporated by reference to our Annual Report on Form 10-K filed on March 8, 2013). |
| 10.8# | 2008 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Registrant’s Form S-8 Registration Statement (File No. 333-152013) filed on June 30, 2008). |
| 10.9# | Form of Change in Control Agreement between AtriCure and AtriCure Executive Officers (incorporated by reference to our Annual Report on Form 10-K filed on March 8, 2013). |
| 10.10 | Amended and Restated Loan and Security Agreement, dated as of September 13, 2010, between Silicon Valley Bank and AtriCure, Inc. (incorporated by reference to our Current Report on Form 8-K, filed on |

| | |
|---|---|
| | September 17, 2010). |
| 10.11 | First Loan Modification Agreement, dated as of March 15, 2011, between Silicon Valley Bank and AtriCure, Inc. (incorporated by reference to our Current Report on Form 8-K, filed on March 16, 2011). |
| 10.12 | Second Loan Modification Agreement, dated as of February 2, 2012, between Silicon Valley Bank and AtriCure, Inc. (incorporated by reference to our Current Report on Form 8-K, filed on February 2, 2012). |
| 10.13 | Third Loan Modification Agreement, dated as of May 31, 2012, between Silicon Valley Bank and AtriCure, Inc. (incorporated by reference to our Current Report on Form 8-K, filed on June 4, 2012). |
| 10.14 | Fourth Loan Modification Agreement, dated as of September 26, 2012, between Silicon Valley Bank and AtriCure, Inc. (incorporated by reference to our Current Report on Form 8-K, filed on September 28, 2012). |
| 10.15 | Joinder and Fifth Loan Modification Agreement, dated as of January 30, 2013, between Silicon Valley Bank and AtriCure, Inc. (incorporated by reference to our Current Report on Form 8-K, filed on January 31, 2013). |
| 10.16 | Joinder and Sixth Loan Modification Agreement, dated as of March 29, 2013, between Silicon Valley Bank and AtriCure, Inc. (incorporated by reference to our Current Report on Form 8-K, filed on March 29, 2013). |

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| Exhibit No. | Description |
|---|---|
| 10.17 | Joinder and Seventh Loan Modification Agreement, dated as of April 30, 2014, between Silicon Valley Bank and AtriCure, Inc. (incorporated by reference to our Quarterly Report on Form 10-Q, filed on April 30, 2014). |
| 10.18 | Eighth Loan Modification Agreement, dated as of March 31, 2015, between Silicon Valley Bank and AtriCure, Inc. (incorporated by reference to our Current Report on Form 8-K, filed on April 2, 2015). |
| 10.19 | Lease Agreement Dated August 20, 2014 between LM-VP AtriCure, LLC, as Landlord, and AtriCure, Inc., as Tenant (incorporated by reference to our Current Report on Form 8-K, filed on August 25, 2014). |
| 10.20# | Amended and Restated AtriCure, Inc. 2014 Stock Incentive Plan (incorporated by reference to our Quarterly Report on Form 10-Q, filed on October 31, 2014). |
| 10.21# | Form of Restricted Stock Award Agreement under the Amended and Restated AtriCure, Inc. 2014 Stock Incentive Plan (incorporated by reference to our Quarterly Report on Form 10-Q, filed on October 31, 2014). |
| 10.22# | Form of Stock Option Award Agreement for Executive Officers under the Amended and Restated AtriCure, Inc. 2014 Stock Incentive (incorporated by reference to our Quarterly Report on Form 10-Q, filed on October 31, 2014). |
| 10.23# | Form of Stock Option Award Agreement for Non-Employee Directors under the Amended and Restated AtriCure, Inc. 2014 Stock Incentive Plan (incorporated by reference to our Quarterly Report on Form 10-Q, filed on October 31, 2014). |
| 10.24 | Merger Agreement dated as of October 4, 2015 among nContact Surgical, Inc., AtriCure, Inc., Portal Merger Sub, Inc., Second Portal Merger Sub, LLC and WRYP Stockholder Services, LLC, as Representative of nContact stockholders (incorporated by reference to our Current Report on Form 8-K, filed on October 5, 2015). |
| 21 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Deloitte & Touche LLP. |
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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# Compensatory plan or arrangement.

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Explanation of Responses:

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on our behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| | AtriCure, Inc.<br>(REGISTRANT) |
| Date: February 29, 2016 | /s/ Michael H. Carrel<br>Michael H. Carrel<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: February 29, 2016 | /s/ M. Andrew Wade<br>M. Andrew Wade<br>Senior Vice President and Chief Financial Officer<br>(Principal Accounting and Financial Officer) |

KNOW ALL MEN AND WOMEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael H. Carrel, his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any and all amendments to this Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, and any of them or his substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities indicated on February 29, 2016.

| Signature | Title(s) |
|---|---|
| /s/ Richard M. Johnston<br>Richard M. Johnston | Richard M. Johnston<br>Chairman of the Board |
| /s/ Michael H. Carrel<br>Michael H. Carrel | Michael H. Carrel<br>Director, President and Chief Executive Officer<br>(Principal Executive Officer) |
| /s/ M. Andrew Wade | M. Andrew Wade |

| | |
|---|---|
| M. Andrew Wade | Senior Vice President and Chief Financial Officer<br>(Principal Accounting and Financial Officer) |
| /s/ Mark A. Collar<br>Mark A. Collar | Mark A. Collar<br>Director |
| /s/ Scott W. Drake<br>Scott W. Drake | Scott W. Drake<br>Director |
| /s/ Michael D. Hooven<br>Michael D. Hooven | Michael D. Hooven<br>Director |
| /s/ Elizabeth D. Krell<br>Elizabeth D. Krell | Elizabeth D. Krell<br>Director |
| /s/ Mark R. Lanning<br>Mark R. Lanning | Mark R. Lanning<br>Director |
| /s/ Karen P. Robards<br>Karen P. Robards | Karen P. Robards<br>Director |
| /s/ Robert S. White<br>Robert S. White | Robert S. White<br>Director |

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| 3.3 | Third Amended and Restated Bylaws (incorporated by reference to our Registration Statement on Form S-1 (Registration No. 333-124197) filed on April 20, 2005). |
| 4.1 | Specimen common stock certificate (incorporated by reference to Amendment No. 2 to our Registration Statement on Form S-1 (Registration No. 333-124197), filed on July 7, 2005). |
| 4.2 | Warrant to purchase AtriCure, Inc. common stock issued to Silicon Valley Bank on May 1, 2009 (incorporated by reference to our Quarterly Report on Form 10-Q, filed on August 10, 2009). |
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| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

\# Compensatory plan or arrangement.