UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023
or

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

For the transition period from_____________to_____________

Commission File Number 000-51470

AtriCure, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**34-1940305**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

7555 Innovation Way
Mason, OH 45040
(Address of principal executive offices)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer	☒	Accelerated Filer	☐	Emerging growth company	☐
Non-Accelerated Filer	☐	Smaller reporting company	☐		

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

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

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

Class	Outstanding at October 30, 2023
Common Stock, $.001 par value	47,395,082

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 80,598	$ 58,099
Short-term investments	52,416	63,014
Accounts receivable, less allowance for credit losses of $300 and $230	51,528	42,693
Inventories	61,894	45,931
Prepaid and other current assets	6,283	5,477
Total current assets	252,719	215,214
Long-term investments	—	51,509
Property and equipment, net	41,400	38,833
Operating lease right-of-use assets	4,043	3,787
Intangible assets, net	65,684	39,339
Goodwill	234,781	234,781
Other noncurrent assets	1,644	1,985
Total assets	$ 600,271	$ 585,448
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 24,542	$ 19,898
Accrued liabilities	37,294	33,022
Current maturities of debt and leases	20,702	5,472
Total current liabilities	82,538	58,392
Long-term debt	42,153	56,834
Finance lease liabilities	8,340	9,147
Operating lease liabilities	3,180	3,095
Other noncurrent liabilities	1,227	1,226
Total liabilities	137,438	128,694
Commitments and contingencies (Note 9)		
Stockholders' Equity:		
Common stock, $0.001 par value, 90,000 shares authorized and 47,392 and 46,563 issued and outstanding	47	47
Additional paid-in capital	812,238	787,422
Accumulated other comprehensive loss	(2,184)	(4,096)
Accumulated deficit	(347,268)	(326,619)
Total stockholders' equity	462,833	456,754
Total liabilities and stockholders' equity	$ 600,271	$ 585,448

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	$ 98,290	$ 83,246	$ 292,702	$ 242,351
Cost of revenue	24,421	21,533	72,147	61,524
Gross profit	73,869	61,713	220,555	180,827
Operating expenses:				
Research and development expenses	20,354	15,169	53,119	43,589
Selling, general and administrative expenses	61,604	57,267	185,451	175,771
Total operating expenses	81,958	72,436	238,570	219,360
Loss from operations	(8,089)	(10,723)	(18,015)	(38,533)
Other income (expense):				
Interest expense	(1,772)	(1,324)	(5,127)	(3,425)
Interest income	915	370	2,751	562
Other	(62)	(549)	(40)	(753)
Loss before income tax expense	(9,008)	(12,226)	(20,431)	(42,149)
Income tax expense	47	46	218	147
Net loss	$ (9,055)	$ (12,272)	$ (20,649)	$ (42,296)
Basic and diluted net loss per share	$ (0.20)	$ (0.27)	$ (0.45)	$ (0.93)
Weighted average shares outstanding—basic and diluted	46,411	45,823	46,262	45,682
Comprehensive income (loss):				
Unrealized gain (loss) on investments	$ 701	$ (691)	$ 2,169	$ (3,479)
Foreign currency translation adjustment	(276)	(260)	(257)	(868)
Other comprehensive income (loss)	425	(951)	1,912	(4,347)
Net loss	(9,055)	(12,272)	(20,649)	(42,296)
Comprehensive loss, net of tax	$ (8,630)	$ (13,223)	$ (18,737)	$ (46,643)

See accompanying notes to condensed consolidated financial statements.

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

Three-Month Period Ended September 30, 2022

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance—June 30, 2022	46,423	$ 46	$ 771,185	$ (310,177)	$ (4,344)	$ 456,710
Impact of equity compensation plans	20	—	6,821	—	—	6,821
Other comprehensive loss	—	—	—	—	(951)	(951)
Net loss	—	—	—	(12,272)	—	(12,272)
Balance—September 30, 2022	46,443	$ 46	$ 778,006	$ (322,449)	$ (5,295)	$ 450,308

Three-Month Period Ended September 30, 2023

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance—June 30, 2023	47,352	$ 47	$ 803,197	$ (338,213)	$ (2,609)	$ 462,422
Impact of equity compensation plans	40	—	9,041	—	—	9,041
Other comprehensive income	—	—	—	—	425	425
Net loss	—	—	—	(9,055)	—	(9,055)
Balance—September 30, 2023	47,392	$ 47	$ 812,238	$ (347,268)	$ (2,184)	$ 462,833

Nine-Month Period Ended September 30, 2022

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance—December 31, 2021	46,016	$ 46	$ 764,811	$ (280,153)	$ (948)	$ 483,756
Impact of equity compensation plans	427	—	13,195	—	—	13,195
Other comprehensive loss	—	—	—	—	(4,347)	(4,347)
Net loss	—	—	—	(42,296)	—	(42,296)
Balance—September 30, 2022	46,443	$ 46	$ 778,006	$ (322,449)	$ (5,295)	$ 450,308

Nine-Month Period Ended September 30, 2023

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance—December 31, 2022	46,563	$ 47	$ 787,422	$ (326,619)	$ (4,096)	$ 456,754
Impact of equity compensation plans	829	—	24,816	—	—	24,816
Other comprehensive income	—	—	—	—	1,912	1,912
Net loss	—	—	—	(20,649)	—	(20,649)
Balance—September 30, 2023	47,392	$ 47	$ 812,238	$ (347,268)	$ (2,184)	$ 462,833

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities:		
Net loss	$ (20,649)	$ (42,296)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Share-based compensation expense	26,416	21,574
Depreciation	6,979	5,877
Amortization of intangible assets	3,655	2,914
Amortization of deferred financing costs	364	383
Amortization of investments	461	1,272
Other non-cash adjustments	972	1,458
Changes in operating assets and liabilities:		
Accounts receivable	(8,940)	(8,985)
Inventories	(16,037)	(5,710)
Other current assets	(828)	699
Accounts payable	4,147	5,675
Accrued liabilities	4,314	(4,606)
Other noncurrent assets and liabilities	(400)	(442)
Net cash provided by (used in) operating activities	454	(22,187)
Cash flows from investing activities:		
Purchases of available-for-sale securities	—	(24,637)
Sales and maturities of available-for-sale securities	63,815	74,351
Purchases of property and equipment	(9,212)	(12,710)
Acquisition of intellectual property	(30,000)	—
Net cash provided by investing activities	24,603	37,004
Cash flows from financing activities:		
Payments on leases	(731)	(662)
Payment of debt fees	(60)	—
Proceeds from stock option exercises and employee stock purchase plan	4,873	3,757
Shares repurchased for payment of taxes on stock awards	(6,473)	(12,136)
Net cash used in financing activities	(2,391)	(9,041)
Effect of exchange rate changes on cash and cash equivalents	(167)	(607)
Net increase in cash and cash equivalents	22,499	5,169
Cash and cash equivalents—beginning of period	58,099	43,654
Cash and cash equivalents—end of period	$ 80,598	$ 48,823
Supplemental cash flow information:		
Cash paid for interest	$ 4,716	$ 2,926
Net cash paid for income taxes	228	135
Non-cash investing and financing activities:		
Accrued purchases of property and equipment	714	1,917

See accompanying notes to condensed consolidated financial statements.

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

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business—The “Company” or “AtriCure” consists of AtriCure, Inc. and its wholly-owned subsidiaries. The Company is a leading innovator in surgical treatments and therapies for atrial fibrillation (Afib), left atrial appendage (LAA) management and post-operative pain management, and sells its products to medical centers globally through its direct sales force and distributors.

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

The accompanying interim financial statements should be read in conjunction with the Company’s audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC. Except as discussed herein, there have been no changes in the Company's significant accounting policies for the nine months ended September 30, 2023 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Use of Estimates—The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including inventories, intangible assets, valuation allowance for deferred income tax assets, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense, including share-based compensation expense. Estimates are based on historical experience, where applicable, and other reasonable assumptions. Actual results could differ from those estimates.

Segments—The Company's chief operating decision maker is its Chief Executive Officer, who reviews financial information presented on a consolidated basis, accompanied only by revenue information by product type and geographic area, for purposes of allocating resources and evaluating financial performance. Accordingly, the Company has determined that it has a single operating segment. The Company’s long-lived assets are located in the United States, except for $2,933 as of September 30, 2023 and $1,616 as of December 31, 2022 located primarily in Europe.

Earnings Per Share—Basic and diluted net loss per share are computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Since the Company has experienced net losses for all periods presented, net loss per share excludes the effect of 1,776 and 1,472 shares as of September 30, 2023 and 2022 because they are anti-dilutive. Therefore, the number of shares used for basic and diluted net loss per share are the same.

Share-Based Compensation—The Company recognizes share-based compensation expense for all share-based payment awards, including stock options, restricted stock awards, restricted stock units, performance share awards (PSAs) and stock purchases through an employee stock purchase plan, based on estimated fair values. The value of the portion of an award that is ultimately expected to vest is recognized as expense ratably over the service period. Prior to January 1, 2023, the Company estimated forfeitures at the time of grant and revised them, as necessary, in subsequent periods as actual forfeitures differ from those estimates. Effective January 1, 2023, the Company's policy was amended to account for forfeitures as they occur rather than estimating at the time of grant, and the effect on income from continuing operations and retained earnings is not significant.

Intangible Assets—Technology intangible assets with determinable useful lives are amortized on a straight-line basis over the estimated fifteen year period benefited. Patent intangible assets with determinable useful lives are amortized over the estimated useful life of five years in a pattern reflecting the estimated economic benefit of the asset to the Company. Amortization of technology intangible assets is recorded in selling, general and administrative expense, while amortization of patent intangible assets is recorded in cost of revenue.

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

(In Thousands, except per share amounts)

2. FAIR VALUE

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (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 settle 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 fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table represents the Company's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of September 30, 2023:

	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	$ —	$ 76,501	$ —	$ 76,501
Government and agency obligations	12,531	—	—	12,531
Corporate bonds	—	37,674	—	37,674
Asset-backed securities	—	2,211	—	2,211
Total assets	$ 12,531	$ 116,386	$ —	$ 128,917

There were no changes in the levels or methodology of measurement of financial assets and liabilities during the three and nine months ended September 30, 2023.

The following table represents the Company's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of December 31, 2022:

	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	$ —	$ 54,414	$ —	$ 54,414
Commercial paper	—	11,935	—	11,935
Government and agency obligations	32,637	—	—	32,637
Corporate bonds	—	67,598	—	67,598
Asset-backed securities	—	2,353	—	2,353
Total assets	$ 32,637	$ 136,300	$ —	$ 168,937

Contingent Consideration. The Company's contingent consideration arrangements arising from the SentreHEART acquisition obligate the Company to pay certain defined amounts to former shareholders of SentreHEART if specified milestones are met related to the aMAZE™ IDE clinical trial, including pre-market approval (PMA) approval and reimbursement for the therapy involving SentreHEART's devices. The Company assessed the projected probability of payment during the contractual achievement periods to be remote, resulting in no reported fair value as of September 30, 2023 and December 31, 2022.

(In Thousands, except per share amounts)

3. INVESTMENTS

Investments as of September 30, 2023 consisted of the following:

	Cost Basis	Unrealized Losses	Fair Value
Corporate bonds	$ 38,674	$ (1,000)	$ 37,674
Government and agency obligations	12,996	(465)	12,531
Asset-backed securities	2,275	(64)	2,211
Total	$ 53,945	$ (1,529)	$ 52,416

Investments as of December 31, 2022 consisted of the following:

	Cost Basis	Unrealized Losses	Fair Value
Corporate bonds	$ 69,832	$ (2,234)	$ 67,598
Government and agency obligations	33,971	(1,334)	32,637
Commercial paper	11,935	—	11,935
Asset-backed securities	2,483	(130)	2,353
Total	$ 118,221	$ (3,698)	$ 114,523

The gross realized gains or losses from sales of available-for-sale investments were not significant in the three and nine months ended September 30, 2023 and 2022.

The cost and fair value of investments in debt securities, by contractual maturity, as of September 30, 2023 were as follows:

	Available-for-sale	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 51,670	$ 50,205
Instruments not due at a single maturity date	2,275	2,211
Total	$ 53,945	$ 52,416

Instruments not due at a single maturity date consist of asset-backed securities. Actual maturities may differ from the contractual maturities due to call or prepayment rights.

4. INVENTORIES

Inventories consist of the following:

	September 30, 2023	December 31, 2022
Raw materials	$ 30,086	$ 19,880
Work in process	4,327	2,959
Finished goods	27,481	23,092
Total	$ 61,894	$ 45,931

(In Thousands, except per share amounts)

5. INTANGIBLE ASSETS

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

	September 30, 2023		December 31, 2022	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Technology	$ 46,470	$ 9,346	$ 46,470	$ 7,131
Patents	30,000	1,440	—	—
Total	$ 76,470	$ 10,786	$ 46,470	$ 7,131

In May 2023, the Company acquired patents that will be amortized over an estimated useful life of five years. See Note 9 - Commitments and Contingencies for further information on the asset acquisition.

The following table summarizes the allocation of amortization expense of intangible assets:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of revenues	$ 960	$ —	$ 1,440	$ —
Selling, general and administrative expenses	739	971	2,215	2,914
Total	$ 1,699	$ 971	$ 3,655	$ 2,914

Future amortization expense is projected as follows:

2023 (excluding the nine months ended September 30, 2023)	$ 1,698
2024	7,453
2025	8,353
2026	9,553
2027	10,453
2028 and thereafter	28,174
Total	$ 65,684

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	September 30, 2023	December 31, 2022
Accrued compensation and employee-related expenses	$ 32,288	$ 26,924
Sales returns and allowances	2,870	2,797
Other accrued liabilities	2,136	3,301
Total	$ 37,294	$ 33,022

7. INDEBTEDNESS

Credit Facility. The Company has a Loan and Security Agreement, as amended and modified effective November 1, 2021, (Loan Agreement). Our primary banking relationship in the United States was with Silicon Valley Bank. During the first quarter of 2023 all deposits and loans of Silicon Valley Bank were purchased by First-Citizens Bank & Trust Company, and our banking relationship is now with Silicon Valley Bank, a division of First-Citizens Bank & Trust Company. The Loan Agreement provides a $60,000 term loan, a $30,000 revolving line of credit, and an option for an additional $30,000 in term loan borrowings. The Loan Agreement has a five year term, expiring November 2026.

(In Thousands, except per share amounts)

Principal payments under the Loan Agreement are to be made ratably commencing 24 months after inception through the loan's maturity date. If the Company meets certain conditions, as specified by the Loan Agreement, the commencement of term loan principal payments may be deferred by an additional twelve months. The term loan accrues interest at the Prime Rate plus 1.25% and is subject to an additional 3.00% fee on the term loan principal amount at maturity. The Company is accruing the 3.00% fee over the term of the Loan Agreement, with $690 included in the outstanding loan balance as of September 30, 2023. Additionally, the unamortized original financing costs related to the term loan of $204 are netted against the outstanding loan balance in the Condensed Consolidated Balance Sheets and are amortized ratably over the term of the Loan Agreement.

The revolving line of credit is subject to an annual facility fee of 0.20%, and any borrowings thereunder bear interest at the Prime Rate. Borrowing availability under the revolving credit facility is based on the lesser of $30,000 or a borrowing base calculation as defined by the Loan Agreement. As of September 30, 2023, the Company had no borrowings under the revolving credit facility and had borrowing availability of $28,750.

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

Future maturities of long-term debt, excluding the term loan final fee, are projected as follows:

2023 (excluding the nine months ended September 30, 2023)	$	3,333
2024		20,000
2025		20,000
2026		16,667
Total long-term debt, of which $18,333 is current and $41,667 is noncurrent	$	60,000

8. LEASES

The Company has operating and finance leases for office, manufacturing and warehouse facilities and equipment. The Company’s leases have remaining lease terms of less than one year to ten years. Options to renew or extend leases beyond their initial term have been excluded from measurement of the ROU assets and lease liabilities as exercise is not reasonably certain.

The weighted average remaining lease term and the discount rate for the reporting periods are as follows:

	September 30, 2023	December 31, 2022
Operating Leases		
Weighted average remaining lease term (years)	5.0	4.4
Weighted average discount rate	5.39 %	4.60 %
Finance Leases		
Weighted average remaining lease term (years)	6.9	7.6
Weighted average discount rate	6.92 %	6.92 %

A $1,250 letter of credit issued to the lessor of the Company's corporate headquarters building is renewed annually and remains outstanding as of September 30, 2023.

(In Thousands, except per share amounts)

The components of lease expense are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease cost	$ 325	$ 281	$ 960	$ 851
Finance lease cost:				
Amortization of right-of-use assets	255	253	765	761
Interest on lease liabilities	166	182	511	557
Total finance lease cost	$ 421	$ 435	$ 1,276	$ 1,318

Short-term lease expense was not significant for the three and nine months ended September 30, 2023 and 2022.

Supplemental cash flow information related to leases is as follows:

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 905	$ 610
Operating cash flows for finance leases	511	557
Financing cash flows for finance leases	731	662
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	1,068	—
Finance leases	—	62

Supplemental balance sheet information related to leases is as follows:

	September 30, 2023	December 31, 2022
Operating Leases		
Operating lease right-of-use assets	$ 4,043	$ 3,787
Current maturities of leases	1,301	1,147
Operating lease liabilities	3,180	3,095
Total operating lease liabilities	$ 4,481	$ 4,242
Finance Leases		
Property and equipment, at cost	$ 14,620	$ 14,645
Accumulated depreciation	(7,849)	(7,109)
Property and equipment, net	$ 6,771	$ 7,536
Current maturities of leases	$ 1,068	$ 992
Finance lease liabilities	8,340	9,147
Total finance lease liabilities	$ 9,408	$ 10,139

(In Thousands, except per share amounts)

Future maturities of lease liabilities as of September 30, 2023 are as follows:

	Operating Leases	Finance Leases
2023 (excluding the nine months ended September 30, 2023)	$ 330	$ 423
2024	1,270	1,689
2025	1,034	1,638
2026	727	1,671
2027	754	1,703
2028 and thereafter	1,169	4,824
Total payments	$ 5,284	$ 11,948
Less imputed interest	(803)	(2,540)
Total	$ 4,481	$ 9,408

9. COMMITMENTS AND CONTINGENCIES

License Agreement. The Company had been a party to a license agreement that required royalty payments of 5% of specified product sales. In May 2023, the Company entered into an agreement that terminated the license agreement and the Company's obligations to make royalty payments under the license agreement. See *Legal* section below for additional information.

Purchase Agreements. The Company enters into standard purchase agreements with suppliers in the ordinary course of business, generally with terms that allow cancellation.

Legal. The Company may, from time to time, become a party to legal proceedings. Such matters are subject to many uncertainties and to outcomes of which the financial impacts are not predictable with assurance and that may not be known for extended periods of time. A liability is established once management determines a loss is probable and an amount can be reasonably estimated. The Company recognizes income from a favorable resolution of legal proceedings when the associated cash or assets are received.

The Company received a Civil Investigative Demand (CID) from the U.S. Department of Justice (USDOJ) in December 2017 stating that it is investigating the Company to determine whether the Company has violated the False Claims Act, relating to the promotion of certain medical devices related to the treatment of atrial fibrillation for off-label use and submitted or caused to be submitted false claims to certain federal and state health care programs for medically unnecessary healthcare services related to the treatment of atrial fibrillation. The CID covers the period from January 2010 to December 2017 and required the production of documents and answers to written interrogatories. The Company had no knowledge of the investigation prior to receipt of the CID. The Company maintains rigorous policies and procedures to promote compliance with the False Claims Act and other applicable regulatory requirements. The Company provided the USDOJ with documents and answers to the written interrogatories. In March 2021, USDOJ informed the Company that its investigation was based on a lawsuit brought on behalf of the United States and various state and local governments under the *qui tam* provisions of federal and certain state and local False Claims Acts. Although the USDOJ and all of the state and local governments declined to intervene, the relator continues to pursue the case. During the third quarter of 2022, the relator filed a Fourth Amended Complaint, which dropped allegations of off-label promotion and now alleges that the Company paid illegal kickbacks to healthcare providers in exchange for using or referring the Company’s products, in violation of the federal Anti-Kickback Statute and various comparable state and local laws. While the Company is contesting the case, it is not possible to predict when this matter may be resolved or what impact, if any, the outcome of this matter might have on our consolidated financial position, results of operations, or cash flows.

On August 23, 2022, the Cleveland Clinic Foundation (Clinic) and IDx Medical, Ltd. (IDx) filed a Demand for Arbitration against the Company with the American Arbitration Association (AAA), alleging that the Company breached certain provisions of the License Agreement dated December 9, 2003 among the Company, Clinic and IDx (License Agreement). Clinic and IDx alleged that the Company did not include the revenues from sales of certain products in its royalty payments due under the License Agreement, and the Company did not provide related notices required under the License Agreement. The Company filed its Answering Statement and Counterclaims to the allegations in September 2022, denying each

ATRICURE, INC. AND SUBSIDIARIES
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(In Thousands, except per share amounts)
(Unaudited)

claim and counterclaiming for breach of contract, correction of inventorship, declaratory judgment, patent prosecution and legal fees. In May 2023, the Company entered into an Assignment and Agreement Regarding IDx and CCF Intellectual Property (Assignment Agreement) with Clinic and IDx. Pursuant to the Assignment Agreement, during the second quarter of 2023, the Company made a one-time payment of $33,400 to Clinic and IDx for the acquisition of patents and other intellectual property. The Assignment Agreement also requires dismissal of the arbitration and release of payment for royalty obligations due to Clinic and IDx under the License Agreement after March 31, 2023. The amount paid, together with transaction costs, was allocated between the acquired intangible asset, the release of payment for royalty obligations and the settlement of the dispute. The intangible asset was assigned a value of $30,000 and is being amortized over an estimated useful life of 5 years. The release of the royalty obligations was valued at $432. The remaining $3,088 was allocated to the settlement and is included in selling, general and administrative expenses for the nine months ended September 30, 2023.

During the first quarter of 2023, the Company entered into a legal settlement for $7,500 in connection with the settlement of claims filed against a competitor. The Company recorded a $7,500 gain for the nine months ended September 30, 2023 for the proceeds received as a reduction to selling, general and administrative expenses.

10. REVENUE

The Company develops, manufactures and sells devices designed primarily for surgical ablation of cardiac tissue, exclusion of the left atrial appendage, and temporarily blocking post-operative pain by ablating peripheral nerves. These devices are marketed to a broad base of medical centers globally. The Company recognizes revenue when control of promised goods is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods.

United States revenue by product type is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Open ablation	$ 25,844	$ 21,569	$ 77,988	$ 62,613
Minimally invasive ablation	10,893	10,077	31,900	28,846
Pain management	12,591	10,510	36,249	28,734
Total ablation	$ 49,328	$ 42,156	$ 146,137	$ 120,193
Appendage management	32,364	27,620	98,647	83,120
Total United States	$ 81,692	$ 69,776	$ 244,784	$ 203,313

International revenue by product type is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Open ablation	$ 8,007	$ 6,680	$ 23,015	$ 19,385
Minimally invasive ablation	1,578	1,445	4,820	4,249
Pain management	547	121	1,214	375
Total ablation	$ 10,132	$ 8,246	$ 29,049	$ 24,009
Appendage management	6,466	5,224	18,869	15,029
Total International	$ 16,598	$ 13,470	$ 47,918	$ 39,038

ATRICURE, INC. AND SUBSIDIARIES
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(In Thousands, except per share amounts)
(Unaudited)

Revenue attributed to customer geographic locations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
United States	$ 81,692	$ 69,776	$ 244,784	$ 203,313
Europe	9,217	7,296	28,075	22,316
Asia Pacific	6,568	5,518	18,095	15,008
Other International	813	656	1,748	1,714
Total International	16,598	13,470	47,918	39,038
Total Revenue	$ 98,290	$ 83,246	$ 292,702	$ 242,351

11. INCOME TAX PROVISION

The Company files federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The Company uses the asset and liability method to determine its provision for income taxes. The Company’s provision for income taxes in interim periods is computed by applying the discrete method and is based on financial results through the end of the interim period. The Company determined that using the discrete method is more appropriate than using the annual effective tax rate method. The Company is unable to estimate the annual effective tax rate with sufficient precision to use the effective tax rate method, which requires a full-year projection of income. The effective tax rate for the three months ended September 30, 2023 and 2022 was (0.5%) and (0.4%). The effective tax rate for the nine months ended September 30, 2023 and 2022 was (1.1%) and (0.4%). The Company’s worldwide effective tax rate differs from the US statutory rate of 21% primarily due to its valuation allowances.

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

12. EQUITY COMPENSATION PLANS

The Company has two share-based incentive plans: the 2023 Stock Incentive Plan (2023 Plan) and the 2018 Employee Stock Purchase Plan (ESPP). Stockholders approved the 2023 Plan at the 2023 Annual Meeting of Stockholders. Pursuant to its terms, the 2023 Plan supersedes and replaces the 2014 Stock Incentive Plan (Prior Plan).

Stock Incentive Plan

Under the 2023 Plan, the Board of Directors may grant restricted stock awards, restricted stock units, nonstatutory stock options, performance share awards and stock appreciation rights to Company employees, directors and consultants, and may grant incentive stock options to Company employees. The Compensation Committee of the Board of Directors, as the administrator of the 2023 Plan, has the authority to determine the terms of any awards, including the number of shares subject to each award, the exercisability of the awards and the form of consideration. As of September 30, 2023, 2,287 shares of common stock have been reserved for issuance under the 2023 Plan, and 2,268 shares were available for future grants.

Employee Stock Purchase Plan

Under the ESPP, shares of the Company’s common stock may be purchased at a 15% discount of the lesser of the closing price of the Company’s common stock on the first or last trading days 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 or more than 3 shares during an offering period. As of September 30, 2023, there were 847 shares available for future issuance under the ESPP.

(In Thousands, except per share amounts)

Share-Based Compensation Expense Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of revenue	$ 442	$ 405	$ 1,356	$ 1,463
Research and development expenses	1,485	1,115	4,329	3,431
Selling, general and administrative expenses	6,734	5,481	20,731	16,680
Total	$ 8,661	$ 7,001	$ 26,416	$ 21,574

13. COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE LOSS

In addition to net losses, comprehensive loss includes foreign currency translation adjustments and unrealized gains (losses) on investments.

Accumulated other comprehensive loss consisted of the following, net of tax:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Total accumulated other comprehensive loss at beginning of period	$ (2,609)	$ (4,344)	$ (4,096)	$ (948)
Unrealized Gains (Losses) on Investments				
Balance at beginning of period	$ (2,230)	$ (3,675)	$ (3,698)	$ (887)
Other comprehensive income (loss) before reclassifications	701	(691)	2,169	(3,407)
Amounts reclassified to other income (expense)	—	—	—	(72)
Balance at end of period	$ (1,529)	$ (4,366)	$ (1,529)	$ (4,366)
Foreign Currency Translation Adjustment				
Balance at beginning of period	$ (379)	$ (669)	$ (398)	$ (61)
Other comprehensive loss before reclassifications	(286)	(721)	(133)	(1,508)
Amounts reclassified to other income (expense)	10	461	(124)	640
Balance at end of period	$ (655)	$ (929)	$ (655)	$ (929)
Total accumulated other comprehensive loss at end of period	$ (2,184)	$ (5,295)	$ (2,184)	$ (5,295)

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and notes thereto contained in Item 1 of Part I of this Form 10-Q and our audited financial statements and notes thereto as of and for the year ended December 31, 2022 included in our Form 10-K filed with the Securities and Exchange Commission (SEC) to provide an understanding of our results of operations, financial condition and cash flows.

Forward-Looking Statements

This Form 10-Q, including the sections titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors,” contains forward-looking statements regarding our future performance. All forward-looking information is inherently uncertain and actual results may differ materially from assumptions, estimates or expectations reflected or contained in the forward-looking statements as a result of various factors, including those set forth under “Risk Factors” and elsewhere in this quarterly report on Form 10-Q, and in our annual report on Form 10-K for the year ended December 31, 2022. There may be additional risks of which we are not presently aware or that we currently believe are immaterial which could have an adverse impact on our business. Forward-looking statements address our expected future business, financial performance, financial condition and results of operations, and often contain words such as “intends,” “estimates,” “anticipates,” “hopes,” “projects,” “plans,” “expects,” “drives,” “seek,” “believes,” “see,” “focus,” “should,” “will,” “would,” “opportunity,” “outlook,” “could,” “can,” “may,” “future,” “predicts,” “target,” “potential,” and similar expressions and the negative versions of those words, and may be identified by the context in which they are used. Such statements are based only upon current expectations of AtriCure. Any forward-looking statement speaks only as of the date made. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to differ materially from those expressed or implied. Forward-looking statements include statements that address activities, events, circumstances or developments that AtriCure expects, believes or anticipates will or may occur in the future. Forward-looking statements are based on AtriCure’s experience and perception of current conditions, trends, expected future developments and other factors it believes are appropriate under the circumstances and are subject to numerous risks and uncertainties, many of which are beyond AtriCure’s control. With respect to the forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements speak only as of the date of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise unless required by law.

Overview

We are a leading innovator in treatments for atrial fibrillation (Afib), left atrial appendage (LAA) management and post-operative pain management. Our ablation and left atrial appendage management (LAAM) products are used by physicians during both open-heart and minimally invasive procedures. In open-heart procedures, the physician is performing heart surgery for other conditions, and our products are used in conjunction with (“concomitant” to) such a procedure. Minimally invasive procedures are performed on a standalone basis, and often include multi-disciplinary or “hybrid” approaches, combining surgical procedures using AtriCure ablation and LAAM products with catheter ablation procedures performed by an electrophysiologist. Our pain management device is used by physicians to freeze nerves during cardiothoracic or thoracic surgical procedures. We anticipate that substantially all of our revenue for the foreseeable future will relate to products we currently sell or are in the process of developing.

We sell our products to medical centers through our direct sales force in the United States, Germany, France, the United Kingdom, the Benelux region, Canada and Australia. We also sell our products through distributors who in turn sell our products to medical centers in other international markets. Our business is primarily transacted in U.S. Dollars; direct sales transactions outside the United States are transacted in Euros, British Pounds, Canadian Dollars or Australian Dollars.

Recent Developments

In 2023, we realized significant global revenue growth and continued our strategic initiatives of product innovation, clinical science and expanding physician awareness and adoption through superior training and education. Our worldwide revenue for the nine months ended September 30, 2023 was $292,702, representing an increase of $50,351, or 20.8%, over the first nine months of 2022, driven by growing adoption across key product lines. Highlights of the strategic and operational advancements include:

PRODUCT INNOVATION. During September 2022, the Company received final labeling approval from FDA for the next generation EPi-Sense® ST device and began a limited launch in the fourth quarter of 2022, with a full launch commencing in the second quarter of 2023. We continue to make significant progress on the submission of our products for clearance under the European Medical Device Regulation (EU MDR). As of the second quarter of 2023, all of our products have been submitted to our Notified Body under EU MDR. These activities are in addition to several new product development programs currently underway.

CLINICAL SCIENCE. We invest in studies to expand labeling claims, support various indications for our products and gather clinical data regarding our products.

LeAAPS. In April 2022, the FDA approved the protocol for the Left Atrial Appendage Exclusion for Prophylactic Stroke Reduction (LeAAPS) IDE clinical trial. The trial is designed to evaluate the effectiveness of prophylactic LAA exclusion using the AtriClip LAA Exclusion System for the prevention of ischemic stroke or systemic arterial embolism in cardiac surgery patients without pre-operative AF diagnosis who are at risk for these events. This prospective, multicenter, randomized trial evaluates safety at 30 days post-procedure to demonstrate no increased risk with LAA exclusion during cardiac surgery. The trial provides for enrollment of up to 6,500 subjects at up to 250 sites worldwide. In January 2023, we enrolled our first patient in the trial; site initiation and enrollment is ongoing.

CEASE-AF. During the second quarter of 2023, results from our CEASE-AF trial were presented at the European Heart Rhythm Association meeting. CEASE-AF is a prospective, multi-center randomized control trial that demonstrated superior freedom from atrial arrhythmias for staged hybrid ablation compared to endocardial catheter ablation.

ICE-AFIB. Trial enrollment was completed in the second quarter of 2023 for the ICE-AFIB clinical trial, which is designed to study the safety and efficacy of our cryoICE® system for persistent and long-standing persistent Afib treatment during concomitant on-pump cardiac surgery. The trial provided for enrollment of up to 150 patients at up to 20 sites in the United States. Patient follow-up for twelve months post ablation required by the study protocol remains ongoing.

TRAINING. Our professional education and marketing teams conduct a variety of virtual and in-person training programs for physicians and other healthcare professionals, as well as our sales teams. These training methods ensure invaluable access to continuing education and awareness of our products and related procedures. During 2023, we launched new training courses for Advanced Practice Providers, pain management in pectus procedures, as well as a best practice course for developing arrhythmia programs, with a primary focus on Hybrid therapies. These trainings allow for collaborative, hands-on engagement with our physician partners and other healthcare professionals. Additionally, our professional education courses continue to benefit from the use of inanimate models or synthetic cadavers, known as CADets. These reusable CADets provide a sustainable alternative to the use of animals or cadavers, in addition to reducing spend on training programs.

Results of Operations

Three months ended September 30, 2023 compared to three months ended September 30, 2022

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

	Three Months Ended September 30,			
	2023		2022	
	Amount	% of Revenues	Amount	% of Revenues
Revenue	$ 98,290	100.0 %	$ 83,246	100.0 %
Cost of revenue	24,421	24.8	21,533	25.9
Gross profit	73,869	75.2	61,713	74.1
Operating expenses:				
Research and development expenses	20,354	20.7	15,169	18.2
Selling, general and administrative expenses	61,604	62.7	57,267	68.8
Total operating expenses	81,958	83.4	72,436	87.0
Loss from operations	(8,089)	(8.2)	(10,723)	(12.9)
Other income (expense), net:	(919)	(0.9)	(1,503)	(1.8)
Loss before income tax expense	(9,008)	(9.2)	(12,226)	(14.7)
Income tax expense	47	—	46	0.1
Net loss	$ (9,055)	(9.2) %	$ (12,272)	(14.7) %

Revenue. The following table sets forth, for the periods indicated, our revenue by product type and geography expressed as dollar amounts and the corresponding change in such revenues between periods, in both dollars and percentages:

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Open ablation	$ 25,844	$ 21,569	$ 4,275	19.8 %
Minimally invasive ablation	10,893	10,077	816	8.1
Pain management	12,591	10,510	2,081	19.8
Appendage management	32,364	27,620	4,744	17.2
Total United States	$ 81,692	$ 69,776	$ 11,916	17.1
Total International	16,598	13,470	3,128	23.2
Total revenue	$ 98,290	$ 83,246	$ 15,044	18.1 %

Worldwide revenue increased 18.1% (17.3% on a constant currency basis). In the United States, we experienced growth in all key product lines, led by the EnCompass® clamp in open ablation, cryoSPHERE® probe for post-operative pain management and AtriClip® Flex·V® for appendage management. International sales increased 23.2% (18.7% on a constant currency basis), across all franchises and major geographic regions, bolstered by strong sales of open ablation and LAAM products in key markets in Europe and ablation products in the Asia Pacific market.

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

Cost of revenue and gross margin. Cost of revenue increased $2,888 primarily reflecting higher sales volumes. Gross margin increased approximately 110 basis points, driven by favorable production efficiencies, partially offset by unfavorable geographic and product mix.

Research and development expenses. Research and development expenses increased $5,185 or 34.2%. Clinical trial expenses increased $2,455 due to strong enrollment activity in the LeAAPS clinical trial throughout the quarter. Expansion of product development, regulatory and clinical teams resulted in $1,320 of increased personnel costs, including variable compensation, travel and share-based compensation. Product development project spend increased $1,034 as we continue to invest in our product development pipeline, with a corresponding $747 increase in spend for regulatory filings and submissions.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $4,337, or 7.6%, driven by a $5,309 increase in personnel costs as a result of growth in headcount and share-based compensation. This increase was partially offset by a $1,375 decrease in training costs as a result of growing efficiencies and enhancements to our global training programs.

Other income (expense). Other income and expense consists primarily of net interest expense and net foreign currency transaction losses.

Nine months ended September 30, 2023 compared to nine months ended September 30, 2022

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

	Nine Months Ended September 30,			
	2023		2022	
	Amount	% of Revenues	Amount	% of Revenues
Revenue	$ 292,702	100.0 %	$ 242,351	100.0 %
Cost of revenue	72,147	24.6	61,524	25.4
Gross profit	220,555	75.4	180,827	74.6
Operating expenses:				
Research and development expenses	53,119	18.1	43,589	18.0
Selling, general and administrative expenses	185,451	63.4	175,771	72.5
Total operating expenses	238,570	81.5	219,360	90.5
Loss from operations	(18,015)	(6.2)	(38,533)	(15.9)
Other income (expense), net:	(2,416)	(0.8)	(3,616)	(1.5)
Loss before income tax expense	(20,431)	(7.0)	(42,149)	(17.4)
Income tax expense	218	0.1	147	0.1
Net loss	$ (20,649)	(7.1) %	$ (42,296)	(17.5) %

Revenue. The following table sets forth, for the periods indicated, our revenue by product type and geography expressed as dollar amounts and the corresponding change in such revenues between periods, in both dollars and percentages:

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Open ablation	$ 77,988	$ 62,613	$ 15,375	24.6 %
Minimally invasive ablation	31,900	28,846	3,054	10.6
Pain management	36,249	28,734	7,515	26.2
Appendage management	98,647	83,120	15,527	18.7
Total United States	$ 244,784	$ 203,313	$ 41,471	20.4
Total International	47,918	39,038	8,880	22.7
Total revenue	$ 292,702	$ 242,351	$ 50,351	20.8 %

Worldwide revenue increased 20.8% (20.7% on a constant currency basis). In the United States, growth in all key product lines reflected continuing adoption of our products. The EnCompass clamp in open ablation revenue, cryoSPHERE probe in pain management and the AtriClip Flex·V within appendage management continue to demonstrate superior product adoption and growth. The EPi-Sense System drove revenue growth in minimally invasive ablation. International sales increased 22.7% (22.1% on a constant currency basis) across all franchises and major geographic regions.

Cost of revenue and gross margin. Cost of revenue increased $10,623 primarily reflecting higher sales volumes, while gross margin increased approximately 80 basis points as realization of increasing production efficiencies more than offset cost pressure from supply chain challenges and geographic and product mix.

Research and development expenses. Research and development expenses increased $9,530 or 21.9%, primarily due to increased clinical trial activity of $4,617 driven by the LeAAPS trial and $4,463 in personnel costs due to additional headcount in our product development, regulatory and clinical teams. Research and development expenses were further increased by $1,482 for additional product development activity to expand our product pipeline and regulatory submissions both domestically and internationally. These increases were partially offset by a $545 decrease in consulting activities for EU MDR submission costs incurred in the prior year.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $9,680, or 5.5%, largely due to increased personnel costs of $17,328 as a result of growth in headcount, variable compensation and share-based compensation. Offsetting these increases was a $4,257 decrease in training due to improved efficiencies and other enhancements. Selling, general and administrative expenses were also offset by a net gain of $4,412 for non-recurring legal settlements during the first half of 2023, including a $7,500 gain from proceeds on a legal matter settled during the first quarter of 2023, partially offset by a $3,088 charge for settlement of an intellectual property matter during the second quarter of 2023. See Note 9 – Commitments and Contingencies for further discussion.

Other income (expense). Other income and expense consists primarily of net interest expense and net foreign currency transaction losses, with the fluctuation between periods primarily driven by a $716 decrease in foreign currency transaction losses in 2023.

Liquidity and Capital Resources

As of September 30, 2023, the Company had cash, cash equivalents and investments of $133,014 and outstanding debt of $60,000. We had unused borrowing capacity of $28,750 under our revolving credit facility. Our primary banking relationship in the United States was with Silicon Valley Bank. During the first quarter of 2023 all deposits and loans of Silicon Valley Bank were purchased by First-Citizens Bank & Trust Company, and our banking relationship is now with Silicon Valley Bank, a division of First-Citizens Bank & Trust Company. Access to our funds, funding sources and other credit arrangements are adequate to finance or capitalize our current and projected future business operations. We had net working capital of $170,181 and an accumulated deficit of $347,268 as of September 30, 2023.

	Nine Months Ended September 30,		
	2023	2022	Change
	(dollars in thousands)		
Net cash provided by (used in) operating activities	$ 454	$ (22,187)	$ 22,641
Net cash provided by investing activities	24,603	37,004	(12,401)
Net cash used in financing activities	(2,391)	(9,041)	(6,650)

Cash flows used in operating activities. Net cash provided by operating activities increased $22,641 from 2022 to 2023, reflecting the improvement in operating results of $21,647, driven by higher sales, improvements to gross margin and a net gain from legal settlements. This was partially offset by a $4,375 increase in cash used for working capital and other assets and liabilities, primarily as a result of an increase in inventory.

Cash flows provided by investing activities. Net cash provided by investing activities decreased by $12,401 in 2023 compared to 2022, reflecting the $30,000 acquisition of intellectual property, partially offset by a $14,101 increase in net maturities of available-for-sale securities and $3,498 decrease in purchases of property and equipment following our 2022 manufacturing facilities expansion.

Cash flows used in financing activities. Net cash used in financing activities decreased by $6,650 in 2023, reflecting savings of $5,663 due to fewer shares repurchased at a lower value for payment of taxes on stock awards and an increase of $1,116 in proceeds from stock option exercise activity and the employee stock purchase plan.

Credit facility. Our Loan and Security Agreement, as amended and modified effective November 1, 2021 (Loan Agreement) provides for a $60,000 term loan, a $30,000 revolving line of credit, and an option to make available an additional $30,000 in term loan borrowings. The Loan Agreement has a five year term, expiring November 2026. Principal payments are to be made ratably commencing 24 months after the inception of the loan through the loan's maturity date. At the option of the Company, the commencement of term loan principal payments may be extended an additional twelve months. The term loan accrues interest at the Prime Rate plus 1.25% and is subject to an additional 3.00% fee on the term loan principal amount at maturity. As of September 30, 2023, our outstanding debt was $60,000, of which $18,333 is classified as current and $41,667 and is classified as noncurrent. We had unused borrowing capacity of $28,750 under our revolving credit facility. For additional information on the terms and conditions, as well as applicable interest and fee payments, see Note 7 – Indebtedness.

Our corporate headquarters lease agreement requires a $1,250 letter of credit which renews annually and remains outstanding as of September 30, 2023.

Uses of liquidity and capital resources. Our executive officers and Board of Directors review our funding sources and future capital requirements in connection with our annual operating plan and periodic updates to the plan. Our future capital requirements depend on a number of factors, including, without limitation: market acceptance of our current and future products; costs to develop and support our products, including professional training; costs to expand and support our sales and marketing efforts; operating and filing costs relating to changes in regulatory policies or laws; costs for clinical trials and to secure regulatory approval for new products; costs to prosecute, defend and enforce our intellectual property rights; maintenance and enhancements to our information systems and security; and possible acquisitions and joint ventures, including potential business integration costs. We continue to evaluate additional measures to maintain financial flexibility, and we will continue to closely monitor macroeconomic conditions including, but not limited to, inflationary pressures, rising interest rates, and fluctuations in currency exchange rates that may impact our liquidity and access to capital resources. Our principal cash requirements include costs of operations, capital expenditures, debt service costs and other contractual obligations.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and disclosures of contingent assets and liabilities at the date of the financial statements. On a periodic basis, we evaluate our estimates, including those related to sales returns and allowances, inventories, share-based compensation and income taxes. We use authoritative pronouncements, historical experience and other assumptions as the basis for making estimates. Actual results could differ from those estimates under different assumptions or conditions. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 includes additional information about the Company, our operations, our financial position and our critical accounting policies and estimates and should be read in conjunction with this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

As of September 30, 2023, there were no material changes to the information provided regarding recent accounting pronouncements in Note 1, “Description of the Business and Summary of Significant Accounting Policies” in the Company’s Form 10-K for the fiscal year ended December 31, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2023, there were no material changes to the information provided under Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in the Company’s Form 10-K for the year ended December 31, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, we routinely enhance our information systems by either upgrading current systems or implementing new ones. There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to legal proceedings can be found under the heading “Legal” in Note 9 – Commitments and Contingencies to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Item 1A, “Risk Factors” in our Form 10-K for the year ended December 31, 2022, as amended by our Form 10-Q for the quarter ended March 31, 2023, all of which could materially affect our business, financial condition or future results. The risks described therein are not the only risks facing us. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may adversely affect our business, financial condition and/or operating results. There have been no material changes with respect to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022, as amended by risk factors provided in our Form 10-Q for the quarter ended March 31, 2023 which are incorporated herein by reference.

Item 5. Other Information

During the three months ended September 30, 2023, none of our executive officers or directors adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement”.

Item 6. Exhibits

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

SIGNATURES

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

AtriCure, Inc.
(REGISTRANT)

Date: November 2, 2023	/s/ Michael H. Carrel **Michael H. Carrel** **President and Chief Executive Officer** **(Principal Executive Officer)**
Date: November 2, 2023	/s/ Angela L. Wirick **Angela L. Wirick** **Chief Financial Officer** **(Principal Accounting and Financial Officer)**

Exhibit 31.1

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

I, Michael H. Carrel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AtriCure, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023

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

Exhibit 31.2

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

I, Angela L. Wirick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AtriCure, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023

By: /s/ Angela L. Wirick
Angela L. Wirick
Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 32.1

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

In connection with the quarterly report of AtriCure, Inc. (Company) on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (Report), I, Michael H. Carrel, President and Chief Executive Officer and Principal Executive Officer of the Company, certify, pursuant to Rule 13a–14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2023

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

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

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

Exhibit 32.2

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

In connection with the quarterly report of AtriCure, Inc. (Company) on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (Report), I, Angela L. Wirick, Chief Financial Officer and Principal Accounting and Financial Officer of the Company, certify, pursuant to Rule 13a–14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2023

By: /s/ Angela L. Wirick
Angela L. Wirick
Chief Financial Officer
(Principal Accounting and Financial Officer)

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

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