AtriCure, Inc.
Form 10-Q
July 28, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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	(IRS Employer

of incorporation) 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)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, 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
Non-Accelerated Filer (Do not check if a smaller reporting company)	Smaller reporting company

Emerging growth 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 July 25, 2017
Common Stock, $.001 par value	34,334,163

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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)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 21,013	$ 24,208
Short-term investments	13,965	19,801
Accounts receivable, less allowance for doubtful accounts of $107 and $246	23,110	21,094
Inventories	19,943	17,660
Other current assets	3,080	2,954
Total current assets	81,111	85,717
Property and equipment, net	29,959	29,995
Long-term investments	—	3,000
Intangible assets, net	51,447	52,131
Goodwill	105,257	105,257
Other noncurrent assets	736	321
Total Assets	$ 268,510	$ 276,421
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$ 11,697	$ 10,673
Accrued liabilities	14,707	16,467
Other current liabilities and current maturities of capital leases and long-term debt	5,291	1,688
Total current liabilities	31,695	28,828
Capital leases	13,048	13,319
Long-term debt	20,421	23,886
Other noncurrent liabilities	41,845	41,946
Total Liabilities	107,009	107,979
Commitments and contingencies (Note 7)		

Stockholders’ Equity:		
Common stock, $0.001 par value, 90,000 shares authorized and 34,326 and 33,342 issued and outstanding	34	33
Additional paid-in capital	377,554	367,851
Accumulated other comprehensive loss	(47)	(468)
Accumulated deficit	(216,040)	(198,974)
Total Stockholders’ Equity	161,501	168,442
Total Liabilities and Stockholders’ Equity	$ 268,510	$ 276,421

See accompanying notes to condensed consolidated financial statements.

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ATRICURE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$ 45,231	$ 39,672	$ 86,504	$ 75,612
Cost of revenue	12,677	10,854	23,942	20,880
Gross profit	32,554	28,818	62,562	54,732
Operating expenses:				
Research and development expenses	8,907	9,124	18,457	17,687
Selling, general and administrative expenses	30,002	27,432	60,102	54,202
Total operating expenses	38,909	36,556	78,559	71,889
Loss from operations	(6,355)	(7,738)	(15,997)	(17,157)
Other income (expense):				
Interest expense	(564)	(477)	(1,118)	(736)
Interest income	48	60	102	99
Other	5	(34)	(13)	(114)
Loss before income tax expense	(6,866)	(8,189)	(17,026)	(17,908)
Income tax expense	17	17	40	22
Net loss	$ (6,883)	$ (8,206)	$ (17,066)	$ (17,930)
Basic and diluted net loss per share	$ (0.21)	$ (0.26)	$ (0.53)	$ (0.57)
Weighted average shares outstanding—basic and diluted	32,288	31,575	32,154	31,466
Comprehensive loss:				
Unrealized gain on investments	$ 4	$ 13	$ 6	$ 54
Foreign currency translation adjustment	342	(219)	415	67
Other comprehensive income (loss)	346	(206)	421	121
Net loss	(6,883)	(8,206)	(17,066)	(17,930)
Comprehensive loss, net of tax	$ (6,537)	$ (8,412)	$ (16,645)	$ (17,809)

See accompanying notes to condensed consolidated financial statements.

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ATRICURE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net loss	$ (17,066)	$ (17,930)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	7,325	5,869
Depreciation	3,906	3,678
Amortization of intangible assets	684	822
Amortization of deferred financing costs	132	86
Loss on disposal of property and equipment	88	117
Realized gain from foreign exchange on intercompany transactions	(10)	(15)
Amortization/accretion on investments	59	74
Change in allowance for doubtful accounts	(134)	(49)
Changes in operating assets and liabilities:		
Accounts receivable	(1,673)	(1,897)
Inventories	(2,094)	(1,595)
Other current assets	(26)	(236)
Accounts payable	565	131
Accrued liabilities	(1,891)	(5,673)
Other noncurrent assets and liabilities	(468)	(338)
Net cash used in operating activities	(10,603)	(16,956)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(7,567)	(21,940)
Maturities of available-for-sale securities	16,350	12,404
Purchases of property and equipment	(3,488)	(4,341)
Net cash provided by (used in) investing activities	5,295	(13,877)
Cash flows from financing activities:		
Proceeds from debt borrowings	—	25,000
Payments on capital leases	(241)	(218)
Payment of debt fees	(50)	(120)
Proceeds from stock option exercises	3,074	2,301
Shares repurchased for payment of taxes on stock awards	(1,901)	(1,033)
Proceeds from issuance of common stock under employee stock purchase plan	1,205	987
Net cash provided by financing activities	2,087	26,917

Effect of exchange rate changes on cash and cash equivalents	26	69
Net decrease in cash and cash equivalents	(3,195)	(3,847)
Cash and cash equivalents—beginning of period	24,208	23,764
Cash and cash equivalents—end of period	$ 21,013	$ 19,917
Supplemental cash flow information:		
Cash paid for interest	$ 985	$ 577
Cash paid for income taxes	—	—
Non-cash investing and financing activities:		
Accrued purchases of property and equipment	703	306
Assets acquired through capital lease	—	43
Capital lease asset early termination	—	9

See accompanying notes to condensed consolidated financial statements.

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited financial statements of the Company included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC.

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

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

Revenue Recognition—The Company accounts for revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605, “Revenue Recognition” (ASC 605). The Company 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 does not normally maintain any post-shipping obligations to the recipients of 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 $300 and $329 for the three months ended June 30, 2017 and 2016 and $640 and $625 for the six months ended June 30, 2017 and 2016. 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 its 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, as well as current deferrals of revenue. The Company estimates such provision on a quarterly basis based on a combination of specific identification and an estimated 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 Condensed 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 expenses. The Company reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables against the allowance

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(In thousands, except per share amounts)

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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 net realizable value based on the first-in, first-out cost method (FIFO). The Company's industry is characterized by rapid product development and frequent new product introductions. Uncertain timing of product approvals, variability in product launch strategies and variation in product use all impact inventory reserves for excess and obsolete products. An inventory allowance is estimated and recorded quarterly for excess, slow moving and obsolete inventory and for specific inventory if carrying value exceeds 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 disposed.

Inventories consist of the following:

	June 30, 2017	December 31, 2016
Raw materials	$ 5,812	$ 5,719
Work in process	1,787	1,221
Finished goods	12,344	10,720
Inventories	$ 19,943	$ 17,660

Property and Equipment—Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life by major asset category is the following: generators and other capital equipment - one to three years; machinery, equipment and vehicles - three to seven years; computer and other office equipment - three years; furniture and fixtures - three to seven years; and leasehold improvements, buildings and equipment under capital leases - the shorter of their useful life or remaining lease term. The Company reassesses the useful lives of property and equipment annually and retires assets 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 certain customers that use the Company's disposable products. 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. Depreciation related to these generators was $909 and $879 for the three months ended June 30, 2017 and 2016, and $1,825 and $1,715 for the six months ended June 30, 2017 and 2016, and is recorded in cost of revenue in the Condensed Consolidated Statements of Operations and Comprehensive Loss. As of June 30, 2017 and December 31, 2016, the net carrying amount of loaned equipment included in net property and equipment in the Condensed Consolidated Balance Sheets was $5,331 and $5,692.

The Company reviews property and equipment for impairment using its best estimates based on reasonable and supportable assumptions and projections of expected cash flows. Property and equipment impairments recorded by the Company have not been significant.

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. IPR&D is accounted for as an indefinite-lived intangible asset until completion or abandonment of the IPR&D project. Upon completion of the development project, 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 IPR&D asset represents an estimate of the fair value of the pre-market approval (PMA) that could result from the CONVERGE IDE clinical trial.

The Company reviews intangible assets 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.

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(Unaudited)

Other Noncurrent Liabilities—Other noncurrent liabilities are primarily contingent consideration recorded in business combinations, long-term deferred revenues and other contractual obligations.

Other Income (Expense)—Other income (expense) consists of foreign currency transaction gains and losses. The Company recorded net foreign currency transaction gains (losses) of $5 and $(34) for the three months ended June 30, 2017 and 2016, and $(13) and $(114) for the six months ended June 30, 2017 and 2016 primarily in connection with settlements of its intercompany balances denominated in Euros and invoices transacted in British Pounds.

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

The Company's estimate of the valuation allowance for deferred income tax assets requires it to make significant estimates and judgments about its future operating results. Deferred income tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more-likely-than-not that some portion of the deferred income tax asset will not be realized. Significant weight is given to evidence that can be objectively verified. The Company evaluates deferred tax income assets on an annual basis to determine if valuation allowances are required by considering all available evidence. Deferred income tax assets are realized by having sufficient future taxable income to allow the related tax benefits to reduce taxes otherwise payable. The sources of taxable income that may be available to realize the benefit of deferred income tax assets are future reversals of existing taxable temporary differences, future taxable income, exclusive of reversing temporary differences and carryforwards, 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 income tax assets as it is more-likely-than-not that the benefit of the deferred income tax assets will not be recognized in future periods.

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 4,349 and 4,471 stock options and restricted stock shares as of June 30, 2017 and 2016 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 on investments.

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

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Total accumulated other comprehensive loss at beginning of period	$ (393)	$ (284)	$ (468)	$ (611)
Unrealized Gains on Investments				
Balance at beginning of period	$ (19)	$ 2	$ (21)	$ (39)
Other comprehensive income before reclassifications	4	13	6	54
Amounts reclassified from accumulated other comprehensive income to other income on the statement of operations and comprehensive loss	—	—	—	—
Balance at end of period	$ (15)	$ 15	$ (15)	$ 15
Foreign Currency Translation Adjustment				
Balance at beginning of period	$ (374)	$ (286)	$ (447)	$ (572)
Other comprehensive income before reclassifications	373	(229)	425	52
Amounts reclassified from accumulated other comprehensive income to other income/expense on the statement of operations and comprehensive loss	(31)	10	(10)	15
Balance at end of period	$ (32)	$ (505)	$ (32)	$ (505)
Total accumulated other comprehensive loss at end of period	$ (47)	$ (490)	$ (47)	$ (490)

Research and Development—Research and development costs are expensed as incurred. These costs include compensation and other internal and external costs associated with the development and research related to new 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 three and six months ended June 30, 2017 and 2016.

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 three months ended June 30, 2017 and 2016 was $3,697 and $3,027, and $7,325 and $5,869 for the six months ended June 30, 2017 and 2016.

ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company’s Condensed Consolidated Statement of Operations and Comprehensive Loss. The expense has been reduced for estimated forfeitures. The Company estimates forfeitures at the time of grant and revises them, 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 Condensed 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 at the beginning of each purchase period and records estimated compensation

ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

expense during the period based upon the fair value of the stock at the beginning of the purchase period using the Black-Scholes model. Expense is adjusted at the time of stock purchase.

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

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 corporate bonds and commercial paper are classified as Level 2 within the fair value hierarchy (see Note 3 – Fair Value for further information). Fixed term debt fair value is determined by calculating the net present value of future debt payments at current market interest rates and is classified as Level 2. The recorded value of the Company's fixed term debt approximates its fair value as of June 30, 2017. Significant unobservable inputs with respect to the Level 3 fair value measurement of the contingent consideration liability is 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 Accounting Standards Update (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 deferred 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. FASB ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)", FASB ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing", and FASB ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients", have been issued in 2016 to further refine the guidance in ASU 2014-09. The Company is evaluating the impact of the provisions of the revenue-related ASUs on its consolidated financial position, results of operations and related disclosures.

In February 2016 the FASB issued ASU 2016-02, "Leases" (ASU 2016-02) which requires lessees to record most leases onto their balance sheet but recognize expenses on their income statement 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 is evaluating the provisions of ASU 2016-02 to determine the impact on its consolidated financial position, results of operations and related disclosures.

In May 2017 the FASB issued ASU 2017-09, “Compensation — Stock Compensation (Topic 718), Scope of Modification Accounting” (ASU 2017-09), which amends the scope of modification accounting for share-based payment arrangements. ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The new guidance also clarifies that a modification to an award could be significant and therefore require disclosure, even if modification accounting is not required. ASU 2017-09 is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Company will consider the new guidance in its accounting and financial reporting for modifications if and when they occur.

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

ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

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 following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

	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	$ —	$ 12,074	$ —	$ 12,074

U.S. government agencies and securities	6,992	—	—	6,992
Corporate bonds	—	1,500	—	