AtriCure, Inc.
Form 10-Q
July 31, 2015
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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 June 30, 2015

or

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

For the transition period from __________ to __________

Commission File Number 000-51470

AtriCure, Inc.

(Exact name of Registrant as specified in its charter)

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

6217 Centre Park Drive

West Chester, OH 45069

(Address of principal executive offices)

(513) 755-4100

(Registrant s telephone number, including area code)

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

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

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

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

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

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 24, 2015**
Common Stock, $.001 par value	28,537,331

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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, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 29,987	$ 28,384
Short-term investments	24,492	31,265
Accounts receivable, less allowance for doubtful accounts of $184 and $68, respectively	17,590	17,558
Inventories	16,073	14,257
Other current assets	2,597	2,044
Total current assets	90,739	93,508
Property and equipment, net	19,352	11,552
Long-term investments	5,209	8,894
Intangible assets, net	8,272	8,878
Goodwill	35,386	35,386
Other noncurrent assets	351	186
Total Assets	$ 159,309	$ 158,404
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 9,344	$ 7,621
Accrued liabilities	11,560	14,041
Other current liabilities and current maturities of capital leases	9,237	3,981
Total current liabilities	30,141	25,643
Capital leases	68	74
Other noncurrent liabilities	409	149
Total Liabilities	30,618	25,866
Commitments and contingencies (Note 7)		
Stockholders Equity:		

Common stock, $0.001 par value, 90,000 shares authorized and 28,537 and 27,580 issued and outstanding, respectively	28	28
Additional paid-in capital	277,787	271,282
Accumulated other comprehensive loss	(543)	(348)
Accumulated deficit	(148,581)	(138,424)
Total Stockholders Equity	128,691	132,538
Total Liabilities and Stockholders Equity	$ 159,309	$ 158,404

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,	
	2015	**2014**	**2015**	**2014**
Revenue	$ 32,583	$ 26,514	$ 62,469	$ 51,361
Cost of revenue	9,466	7,733	17,617	14,923
Gross profit	23,117	18,781	44,852	36,438
Operating expenses:				
Research and development expenses	5,862	4,569	11,471	8,570
Selling, general and administrative expenses	22,074	17,065	43,344	38,646
Total operating expenses	27,936	21,634	54,815	47,216
Loss from operations	(4,819)	(2,853)	(9,963)	(10,778)
Other income (expense):				
Interest expense	(17)	(29)	(35)	(266)
Interest income	43	23	86	37
Other	(90)	172	(231)	638
Loss before income tax expense	(4,883)	(2,687)	(10,143)	(10,369)
Income tax expense	8	5	14	32
Net loss	$ (4,891)	$ (2,692)	$ (10,157)	$ (10,401)
Basic and diluted net loss per share	$ (0.18)	$ (0.10)	$ (0.37)	$ (0.40)
Weighted average shares outstanding basic and diluted	27,304	26,849	27,187	25,813
Comprehensive loss:				
Unrealized gains (losses) on investments	$ 2	$ (11)	$ 39	$ (13)
Foreign currency translation adjustment	253	(28)	(234)	(26)
Other comprehensive income (loss)	255	(39)	(195)	(39)
Net loss	(4,891)	(2,692)	(10,157)	(10,401)
Comprehensive loss	$ (4,636)	$ (2,731)	$ (10,352)	$ (10,440)

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, 2015	Six Months Ended June 30, 2014
Cash flows from operating activities:		
Net loss	$ (10,157)	$ (10,401)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	4,141	3,988
Depreciation	2,087	1,506
Amortization of intangible assets	606	711
Amortization of deferred financing costs	31	80
Loss on disposal of property and equipment	63	14
Realized loss from foreign exchange on intercompany transactions	302	
Amortization/accretion on investments	339	163
Change in allowance for doubtful accounts	117	32
Change in value of contingent consideration		(2,662)
Other		95
Changes in operating assets and liabilities:		
Accounts receivable	(468)	(1,448)
Inventories	(1,977)	(2,457)
Other current assets	(538)	572
Accounts payable	1,128	(936)
Accrued liabilities	(2,196)	(6,704)
Other noncurrent assets and liabilities	128	(926)
Net cash used in operating activities	(6,394)	(18,373)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(10,302)	(27,322)
Sales and maturities of available-for-sale securities	20,460	13,749
Purchases of property and equipment	(4,077)	(2,475)
Increases in property under build-to-suit obligation	(4,806)	
Net cash provided by (used in) investing activities	1,275	(16,048)
Cash flows from financing activities:		
Proceeds from sale of stock, net of offering costs of $0 and $257, respectively		65,830
Payments on debt and capital leases	(25)	(6,352)
Increases in build-to-suit obligation	4,806	
Payment of debt fees and premium on retirement of debt	(62)	(169)
Proceeds from stock option exercises	1,854	1,637
Shares repurchased for payment of taxes on stock awards	(572)	(153)

Proceeds from issuance of common stock under employee stock purchase plan		906		708
Net cash provided by financing activities		6,907		61,501
Effect of exchange rate changes on cash and cash equivalents		(185)		6
Net increase in cash and cash equivalents		1,603		27,086
Cash and cash equivalents beginning of period		28,384		14,892
Cash and cash equivalents end of period	$	29,987	$	41,978
Supplemental cash flow information:				
Cash paid for interest	$	3	$	109
Cash paid for taxes		20		146
Non-cash investing and financing activities:				
Accrued purchases of property and equipment		1,652		137
Assets acquired through capital lease		36		8

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

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 fiscal year or for any future period.

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited financial statements of the Company included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC.

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

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

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 generally does not maintain any post-shipping obligations to the recipients of the products. No installation, calibration or testing of this equipment is performed by the Company subsequent to shipment to the customer in order to render it operational.

Revenue includes shipping and handling revenue of $271 and $236 for the three months ended June 30, 2015 and 2014, respectively, and $518 and $463 for the six months ended June 30, 2015 and 2014, respectively. Cost of freight for shipments made to customers is included in cost of revenue. Sales and other value-added taxes collected from customers and remitted to governmental authorities are excluded from revenue. The Company sells its products primarily through a direct sales force, with certain international markets sold through distributors. Terms of sale are generally consistent for both end-users and distributors except that payment terms are generally net 30 days for end-users and net 60 days for distributors.

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

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ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Allowance for Doubtful Accounts Receivable The Company evaluates the collectability of accounts receivable in order to determine the appropriate reserve for doubtful accounts. In determining the amount of the reserve, the Company considers aging of account balances, historical credit losses, customer-specific information and other relevant factors. An increase to the allowance for doubtful accounts results in a corresponding increase in expense. The Company reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables against the allowance when all attempts to collect the receivable have failed. The Company s history of write-offs against the allowance has not been significant.

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

Inventories consist of the following:

	June 30, 2015	December 31, 2014
Raw materials	$ 5,286	$ 4,429
Work in process	1,251	1,397
Finished goods	9,536	8,431
Inventories	$ 16,073	$ 14,257

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

Generators and other capital equipment (such as the Company s switchbox units and cryosurgical consoles) are loaned at no cost to direct customers that use the Company s disposable products. Depreciation of such assets is included in cost of revenue. The estimated useful lives of this equipment are based on anticipated usage by customers and the timing and impact of expected new technology rollouts by the Company. To the extent the Company experiences changes in the usage of this equipment or introduces new technologies, the estimated useful lives of this equipment may change in a future period. Depreciation related to these generators was $673 and $498 for the three months ended June 30, 2015 and 2014, respectively, and $1,293 and $959 for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and December 31, 2014, the net carrying amount of loaned equipment included in net property and equipment in the Condensed Consolidated Balance Sheets was $4,799 and $4,141, respectively.

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

Intangible Assets Intangible assets with determinable useful lives are amortized on a straight-line basis over the estimated periods benefited. The Company reviews intangible assets for impairment using its best estimates based on reasonable and supportable assumptions and projections.

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

Other Current Liabilities and Current Maturities of Capital Leases Other current liabilities consist of a financing obligation related to the construction of the Company s new headquarters (see Note 7 Commitments and Contingencies). Current maturities of capital leases consist of capital lease obligations with maturities of less than one year (see Note 6 Indebtedness).

ATRICURE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

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

The Company recorded net foreign currency transaction (losses) gains of ($46) and $16 for the three months ended June 30, 2015 and 2014, respectively, and ($209) and $21 for the six months ended June 30, 2015 and 2014, respectively, primarily in connection with settlements of its intercompany balance with AtriCure Europe.

The Company periodically is awarded grants to support research and development activities or education activities. The Company recognizes grant income when the funds are earned. The Company recorded grant income of $0 and $137 during the three months ended June 30, 2015 and 2014, respectively. Grant income of $35 and $500 was recorded for the six month periods ended June 30, 2015 and 2014, respectively.

The Company historically issued stock options to non-employee consultants as a form of compensation for services provided to the Company. Because the non-employee options require settlement by the Company s delivery of registered shares and because the tax withholding provisions in the awards allow the options to be partially net-cash settled, these options, when vested, are no longer eligible for equity classification and are, thus, subsequently accounted for as derivative liabilities under FASB ASC 815, Derivatives and Hedging (ASC 815) until the awards are ultimately either exercised or forfeited. Accordingly, the vested non-employee options are classified as liabilities and remeasured at fair value through earnings at each reporting period. During the three months ended June 30, 2015 and 2014, $44 and ($19), respectively, of expense (income) was recorded as a result of the remeasurement of the fair value of these fully vested stock options. During the six months ended June 30, 2015 and 2014, $57 and ($117), respectively, of expense (income) was recorded as a result of the remeasurement of the fair value of these fully vested stock options.

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

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