AV Homes, Inc.
Form SC 13G/A
February 11, 2015

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No. 7)*

AV HOMES INC

(Name of Issuer)

COMMON

(Title of Class of Securities)

00234P102

(CUSIP Number)

Calendar Year 2014

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

x Rule 13d-1(b)

o Rule 13d-1(c)

o Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 00234P102

| | | |
|---|---|---|
| **1** | NAMES OF REPORTING PERSONS<br>I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)<br>FIRST MANHATTAN CO<br>23-1739078 | |
| **2** | CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)<br>(a) o<br>(b) x | |
| **3** | SEC USE ONLY | |
| **4** | CITIZENSHIP OR PLACE OF ORGANIZATION<br>USA | |
| NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH: | **5** | SOLE VOTING POWER<br>71,046 |
| | **6** | SHARED VOTING POWER<br>1,684,663 |
| | **7** | SOLE DISPOSITIVE POWER<br>71,046 |
| | **8** | SHARED DISPOSITIVE POWER<br>1,797,997 |
| **9** | AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON<br>1,869,043 | |

| | |
|---|---|
| **10** | CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)<br><br>o |
| **11** | PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)<br><br>8.45% |
| **12** | TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)<br><br>BD , IA<br><br>FOOTNOTES |

Item 1.

(a) Name of Issuer
AV HOMES INC.

(b) Address of Issuer's Principal Executive Offices
8601 N. SCOTTSDALE ROAD, SUITE 225
SCOTTSDALE, AZ 85253

Item 2.

(a) Name of Person Filing
FIRST MANHATTAN CO.

(b) Address of Principal Business Office or, if none, Residence
399 PARK AVENUE
NEW YORK, NY 10022

(c) Citizenship
USA

(d) Title of Class of Securities
COMMON

(e) CUSIP Number
00234P102

Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

(a) x Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).

(b) o Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).

(c) o Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).

(d) o Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a-8).

(e) x An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);

(f) o An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);

(g) o A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);

(h) o A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i) o A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j) o A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J).

(k) o A group, in accordance with § 240.13d-1(b)(1)(ii)(K). If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution:

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned: 1,869,043

(b) Percent of class: 8.45%

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote: 71,046

(ii) Shared power to vote or to direct the vote: 1,684,663

(iii) Sole power to dispose or to direct the disposition of: 71,046

(iv) Shared power to dispose or to direct the disposition of: 1,797,997

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following o .

N/A

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

N/A

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

N/A

Item 8. Identification and Classification of Members of the Group

N/A

Item 9. Notice of Dissolution of Group

N/A

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

| | | |
|---|---|---|
| | **FIRST MANHATTAN CO.** | |
| Date: February 11, 2015 | By: | /s/ NEAL K. STEARNS<br>Name: NEAL K. STEARNS<br>Title: SENIOR MANAGING DIRECTOR |

Footnotes:

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001)

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="0" CELLPADDING="0" CELLSPACING="0" WIDTH="100%"> if applicable, the date from and after which such debt warrants and any securities issued therewith will be separately transferable;

the principal amount of debt securities purchasable upon exercise of a debt warrant and the price at which such principal amount of debt securities may be purchased upon exercise;

the date on which the right to exercise such debt warrants shall commence and the date on which such right shall expire;

if applicable, the minimum or maximum amount of such debt warrants which may be exercised at any one time;

whether the debt warrants represented by the debt warrant certificates or debt securities that may be issued upon exercise of the debt warrants will be issued in registered form;

information with respect to book-entry procedures, if any;

the currency, currencies or currency units in which the offering price, if any, and the exercise price are payable;

if applicable, a discussion of certain United States federal income tax considerations;

the identity of the warrant agent for the warrants;

the antidilution provisions of such debt warrants, if any;

the redemption or call provisions, if any, applicable to such debt warrants; and

any additional terms of the debt warrants, including terms, procedures and limitations relating to the exchange and exercise of such debt warrants.

## DESCRIPTION OF DEPOSITARY SHARES

The following briefly summarizes the provisions of the depositary shares and depositary receipts that we may issue from time to time and which would be important to holders of depository shares and depositary receipts, other than pricing and related terms, which will be disclosed in the applicable prospectus supplement. The prospectus supplement will also state whether any of the general provisions summarized below do not apply to the depositary shares or depositary receipts being offered and provide any additional provisions applicable to the depositary shares or depositary receipts being offered. The following description and any description in a prospectus supplement may not be complete and are subject to, and qualified in their entirety by reference to the terms and provisions of the form of deposit agreement filed as an exhibit to the registration statement which contains this prospectus.

**Depositary Shares**

We may offer depositary shares evidenced by depositary receipts. Each depositary share represents a fraction or a multiple of a share of a particular series of preferred stock that we issue and deposit with a depositary. The fraction or the multiple of a share of preferred stock, which each depositary share represents, will be set forth in the applicable prospectus supplement.

We will deposit the shares of any series of preferred stock represented by depositary shares according to the provisions of a deposit agreement to be entered into between us and a bank or trust company, which we will select as its preferred stock depositary. We will name the depositary in the applicable prospectus supplement. Each holder of a depositary share will be entitled to all the rights and preferences of the underlying preferred stock in proportion to the applicable fraction or multiple of a share of preferred stock represented by the

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depositary share. These rights include any applicable dividend, voting, redemption, conversion and liquidation rights. The depositary will send the holders of depositary shares all reports and communications that we deliver to the depositary and which we are required to furnish to the holders of depositary shares.

**Depositary Receipts**

The depositary shares will be evidenced by depositary receipts issued pursuant to the deposit agreement. Depositary receipts will be distributed to anyone who is buying the fractional shares of preferred stock in accordance with the terms of the applicable prospectus supplement.

**Withdrawal of Preferred Stock**

Unless the related depositary shares have previously been called for redemption, a holder of depositary shares may receive the number of whole shares of the related series of preferred stock and any money or other property represented by the holder s depositary receipts after surrendering the depositary receipts at the corporate trust office of the depositary, paying any taxes, charges and fees provided for in the deposit agreement and complying with any other requirement of the deposit agreement. Partial shares of preferred stock will not be issued. If the surrendered depositary shares exceed the number of depositary shares that represent the number of whole shares of preferred stock the holder wishes to withdraw, then the depositary will deliver to the holder at the same time a new depositary receipt evidencing the excess number of depositary shares. Once the holder has withdrawn the preferred stock, the holder will not be entitled to re-deposit that preferred stock under the deposit agreement or to receive depositary shares in exchange for such preferred stock.

**Dividends and Other Distributions**

The depositary will distribute to record holders of depositary shares any cash dividends or other cash distributions it receives on preferred stock. Each holder will receive these distributions in proportion to the number of depositary shares owned by the holder. The depositary will distribute only whole U.S. dollars and cents. The depositary will add any fractional cents not distributed to the next sum received for distribution to record holders of depositary shares.

In the event of a non-cash distribution, the depositary will distribute property to the record holders of depositary shares, unless the depositary determines that it is not feasible to make such a distribution. If this occurs, the depositary may, with our approval, sell the property and distribute the net proceeds from the sale to the holders.

The amounts distributed to holders of depositary shares will be reduced by any amounts required to be withheld by the preferred stock depositary or by we on account of taxes or other governmental charges.

**Redemption of Depositary Shares**

If the series of preferred stock represented by depositary shares is subject to redemption, then we will give the necessary proceeds to the depositary. The depositary will then redeem the depositary shares using the funds it received from us for the preferred stock. The redemption price per depositary share will be equal to the redemption price payable per share for the applicable series of the preferred stock and any other amounts per share payable with respect to the preferred stock multiplied by the fraction of a share of preferred stock represented by one depositary share. Whenever we redeem shares of preferred stock held by the depositary, the depositary will redeem the depositary shares representing the shares of preferred stock on the same day, provided we have paid in full to the depositary the redemption price of the preferred stock to be redeemed and any accrued and unpaid dividends. If fewer than all the depositary shares of a series are to be redeemed, the depositary shares will be selected by lot or ratably or by any other equitable method as the depositary will decide.

After the date fixed for redemption, the depositary shares called for redemption will no longer be considered outstanding. Therefore, all rights of holders of the depositary shares will cease, except that the holders will still be entitled to receive any cash payable upon the redemption and any money or other property to which the holder

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was entitled at the time of redemption. To receive this amount or other property, the holders must surrender the depositary receipts evidencing their depositary shares to the preferred stock depositary. Any funds that we deposit with the preferred stock depositary for any depositary shares that the holders fail to redeem will be returned to us after a period of two years from the date we deposit the funds.

**Voting the Preferred Stock**

Upon receipt of notice of any meeting at which the holders of preferred stock are entitled to vote, the depositary will notify holders of depositary shares of the upcoming vote and arrange to deliver our voting materials to the holders. The record date for determining holders of depositary shares that are entitled to vote will be the same as the record date for the preferred stock. The materials the holders will receive will describe the matters to be voted on and explain how the holders, on a certain date, may instruct the depositary to vote the shares of preferred stock underlying the depositary shares. For instructions to be valid, the depositary must receive them on or before the date specified. To the extent possible, the depositary will vote the shares as instructed by the holder. We agree to take all reasonable actions that the depositary determines are necessary to enable it to vote as a holder has instructed. The depositary will abstain from voting shares of preferred stock deposited under a deposit agreement if it has not received specific instructions from the holder of the depositary shares representing those shares.

**Amendment and Termination of the Deposit Agreement**

We may agree with the depositary to amend the deposit agreement and the form of depositary receipt at any time. However, any amendment that materially and adversely alters the rights of the holders of depositary receipts will not be effective unless it has been approved by the holders of at least a majority of the affected depositary shares then outstanding. We will make no amendment that impairs the right of any holder of depositary shares, as described above under Withdrawal of Preferred Stock, to receive shares of preferred stock and any money or other property represented by those depositary shares, except in order to comply with mandatory provisions of applicable law. If an amendment becomes effective, holders are deemed to agree to the amendment and to be bound by the amended deposit agreement if they continue to hold their depositary receipts.

The deposit agreement automatically terminates if a final distribution in respect of the preferred stock has been made to the holders of depositary receipts in connection with our liquidation, dissolution or winding-up. We may also terminate the deposit agreement at any time we wish with at least 60 days prior written notice to the depositary. If we do so, the depositary will give notice of termination to the record holders not less than 30 days before the termination date. Once depositary receipts are surrendered to the depositary, it will send to each holder the number of whole or fractional shares of the series of preferred stock underlying that holder s depositary receipts.

**Charges of Depositary and Expenses**

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay all charges of the depositary in connection with the initial deposit of the related series of offered preferred stock, the initial issuance of the depositary shares, all withdrawals of shares of the related series of offered preferred stock by holders of the depositary shares and the registration of transfers of title to any depositary shares. However, holders of depositary receipts will pay other taxes and governmental charges and any other charges provided in the deposit agreement to be payable by them.

**Limitations on Our Obligations and Liability to Holders of Depositary Receipts**

The deposit agreement will expressly limit our obligations and the obligations of the depositary. It will also limit our liability and the liability of the depositary as follows:

- we and the depositary are only liable to the holders of depositary receipts for negligence or willful misconduct; and

- we and the depositary have no obligation to become involved in any legal or other proceeding related to the depositary receipts or the deposit agreement on your behalf or on behalf of any other party, unless you provide us with satisfactory indemnity.

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**Resignation and Removal of Depositary**

The depositary may resign at any time by notifying us of its election to do so. In addition, we may remove the depositary at any time. Within 60 days after the delivery of the notice of resignation or removal of the depositary, we will appoint a successor depositary.

**Reports to Holders**

We will deliver all required reports and communications to holders of the offered preferred stock to the depositary, and it will forward those reports and communications to the holders of depositary shares.

## ISSUANCE OF COMMON STOCK PURSUANT TO OUR ACQUISITION OF ESTECH

Effective December 31, 2013, we acquired Endoscopic Technologies, Inc., a Delaware corporation d/b/a Estech ( Estech ) pursuant to the terms of the Merger Agreement (the Merger Agreement ), by and among AtriCure, Niners Merger Sub, LLC, a Delaware limited liability company and a subsidiary of AtriCure ( Merger Sub ), Estech and Fortis Advisors LLC, solely in its capacity as representative of the stockholders ( Representative ). As consideration for the merger, we paid upfront consideration of 1,957,816 shares of common stock and deposited an additional 168,527 shares of common stock into an escrow established pursuant to the Merger Agreement for post-closing claims.

Subject to meeting certain additional financial performance milestones throughout the two year period beginning January 1, 2014, as more particularly described in the Merger Agreement, the Estech stockholders will be eligible to receive an aggregate of up to an additional $26,000,000 (the Earn-Out ). The Earn-Out may be paid in a combination of cash and our common stock. This prospectus relates to the resale of the 2,126,343 shares of our common stock previously issued, and up to 500,000 additional shares that may be issued as Earn-Out, by us to the former stockholders of Estech (the Estech selling securityholders ) in connection with the Merger Agreement.

## SELLING SECURITYHOLDERS

Certain of the shares of common stock to be sold pursuant to this prospectus identified in the table below were issued in a private placement to Estech selling securityholders in connection with the consummation of transactions contemplated by the Merger Agreement described above in Issuance of Common Stock Pursuant to our Acquisition of Estech. The selling securityholder identified below as Camden Partners acquired its shares in private placements unrelated to the Merger Agreement. When we refer to the selling securityholders in this prospectus, we mean the entities listed in the table below, including both the Estech selling securityholders and Camden Partners, as well as their permitted transferees, assignees, donees, pledgees and successors in interest.

The Registration Statement of which this prospectus forms a part has been filed pursuant to registration rights granted to the Estech selling securityholders in the Merger Agreement in order to permit the Estech selling securityholders to resell to the public shares of our common stock, as well as any common stock that we may issue or may be issuable by reason of the Earn-Out. We will pay certain expenses of the registration of the selling securityholders shares of our common stock, including SEC filing fees, but the selling securityholders will pay all underwriting discounts and commissions, if any.

The table below sets forth certain information known to us with respect to the beneficial ownership of the shares of our common stock held by the selling securityholders as of January 31, 2014. Given that the selling securityholders may sell, transfer or otherwise dispose of all, some or none of the shares of our common stock covered by this prospectus, we cannot determine the number of such shares that will be sold, transferred or otherwise disposed of by the selling securityholders, or the amount or percentage of shares of our common stock that will be held by the selling securityholders upon termination of this offering. See Plan of Distribution. For the purposes of the table below, we assume that the selling securityholders will sell all of their shares of our common stock covered by this prospectus.

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In the table below, the percentage of shares beneficially owned is based on 23,363,948 shares of our common stock outstanding as of January 31, 2014. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. The entities named in the table below have sole voting and sole investment power with respect to all shares beneficially owned.

Except as described herein, none of the selling securityholders has had any material relationship with us except with respect to ownership of the shares of common stock.

| | Shares beneficially owned prior to this offering | | | Shares beneficially owned after offering | |
|---|---|---|---|---|---|
| **Name and address of beneficial owner** | **Common stock** | **Percentage of shares** | **Shares to be sold in offering** | **Common stock** | **Percentage of shares** |
| Camden Partners (1)<br>500 East Pratt Street, Suite 1200<br>Baltimore, MD 21202 | 631,790 | 2.65% | 631,790 | | |
| Saints Capital Everest L.P. (2)(3)<br>2020 Union Street<br>San Francisco, CA 94123 | 1,470,367 | 6.16% | 1,470,367 | | |
| NBGI Technology Fund II LP (2)(4)<br>128 Queen Victoria Street<br>London, U.K EC4V 4BJ | 287,486 | 1.20% | 287,486 | | |
| Telegraph Hill Partners SBIC LP (2)(5)<br>360 Post Street, Suite 601<br>San Francisco, CA 94108 | 267,507 | 1.12% | 267,507 | | |
| Tullis Opportunity Fund II, L.P. (2)(6)<br>55 Old Field Point Rd., 2nd Floor<br>Greenwich, CT 06830 | 129,383 | * | 129,383 | | |
| Waveland Ventures IV, LLC (2)(7)<br>19800 MacArthur Blvd., Suite 650<br>Irvine, CA 92612 | 103,265 | * | 103,265 | | |
| Waveland Ventures IV QP, LLC (2)(7)<br>19800 MacArthur Blvd., Suite 650<br>Irvine, CA 92612 | 96,732 | * | 96,732 | | |
| PED Estech, LLC (2)(8)<br>Attn: E. Gray Lee<br>4525 Harding Pike, Suite 200<br>Nashville, TN 37205 | 82,655 | * | 82,655 | | |
| Waveland Ventures IV-A, LLC (2)(7)<br>19800 MacArthur Blvd., Suite 650<br>Irvine, CA 92612 | 34,502 | * | 34,502 | | |
| Waveland Ventures IV-B, LLC (2)(7)<br>19800 MacArthur Blvd., Suite 650<br>Irvine, CA 92612 | 25,016 | * | 25,016 | | |
| | 53,122 | * | 53,122 | | |

| | | | |
|---|---|---|---|
| John Pavlidis(2)<br>573 Lassen Street<br>Los Altos, CA 94022 | | | |
| Terance Kinninger(2)<br>P.O. Box 9112<br>Rancho Santa Fe, CA 92067 | 26,096 | * | 26,096 |
| Tamer Ibrahim(2)<br>598 Bridgewater Circle<br>Danville, CA 94526 | 26,096 | * | 26,096 |
| Mark Koeniguer(2)<br>17417 Country Lake Estates Ridge<br>Chesterfield, MO 63005 | 18,630 | * | 18,630 |
| Randy Lindholm (2)<br>857 Indian River Drive<br>Melbourne, FL 32935 | 5,486 | * | 5,486 |

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* denotes less than one percent

(1) This selling securityholder s holdings consist of 585,405 shares held by Camden Partners Strategic Fund II-A, L.P., 34,727 shares held by Camden Partners Strategic Fund II-B, L.P. and 11,658 shares held by Camden Partners Holdings, LLC. Camden Partners Strategic II, LLC is the general partner of Camden Partners Strategic Fund II-A, L.P. and Camden Partners Strategic Fund II-B, L.P. David L. Warnock and Donald W. Hughes each may be deemed to share voting and investment power with respect to the securities held by these entities and disclaims beneficial ownership of the securities held by these entities, except as to his pecuniary interest therein. Richard M. Johnston, who has served as a director of AtriCure since June 2002 and as Chairman of the Board since February 2005, served as a Managing Member of both Camden Partners Holdings, LLC and Camden Partners Strategic II, LLC, and is now a Retired Member of each.

(2) Includes shares of our common stock over which the selling securityholder has sole voting and dispositive power as well as shares of our common stock held in escrow over which Fortis Advisors LLC in its capacity as representative of the selling securityholder has sole voting power as follows: Saints Capital Everest L.P. 99,253 shares; NBGI Technology Fund II LP 19,401 shares; Telegraph Hill Partners SBIC LP 18,052 shares; Tullis Opportunity Fund II. L.P. 8,728 shares; Waveland Ventures IV, LLC 6,963 shares; Waveland Ventures IV QP, LLC 6531 shares; PED Estech, LLC 5,578 shares; Waveland Ventures IV-A, LLC 2,331 shares; and Waveland Ventures IV-B, LLC 1,690 shares. Also includes up to an aggregate of 500,000 shares of our common stock that may be issued as Earn-Out as follows: Saints Capital Everest L.P. 280,000 shares; NBGI Technology Fund II LP 54,800 shares; Telegraph Hill Partners SBIC LP 51,000 shares; Tullis Opportunity Fund II. L.P. 24,700 shares; Waveland Ventures IV, LLC 19,750 shares; Waveland Ventures IV QP, LLC 18,400 shares; PED Estech, LLC 15,750 shares; Waveland Ventures IV-A, LLC 6,550 shares; Waveland Ventures IV-B, LLC 4,750 shares; John Pavlidis 10,100 shares; Terance Kinninger 4,800 shares; Tamer Ibrahim 4,800 shares; Mark Koeniguer 3,550 shares; and Randy Lindholm 1,050 shares.

(3) The general partner of Saints Capital Everest L.P. is Saints Capital Everest LLC, the managers of which are Scott Halsted, Kenneth Sawyer, David Quinlivana and Ghia Griate, each of whom may be deemed to share voting and investment power with respect to the securities and disclaims beneficial ownership of the securities, except to the extent of his/her pecuniary interest therein.

(4) The general partner of NBGI Technology Fund II LP is NBG GP Limited and the manager of NBGI Technology Fund II LP is NBGI Private Equity Limited. NBG International Limited is the sole parent of both NBG GP Limited and NBGI Private Equity Limited and National Bank of Greece is the sole parent of NBG International Limited. Through board representation on these entities, Aris Constantindes may be deemed to share voting and investment power with respect to the securities and disclaims beneficial ownership of the securities, except to the extent of his/her pecuniary interest therein.

(5) The general partner of Telegraph Hill Partners SBIC LP is Telegraph Hill Partners SBIC, LLC, the managers of which are Robert G. Shepler, J. Matthew Mackowski, Thomas A. Raffin, and Deval A. Lashkari, each of whom may be deemed to share voting and investment power with respect to the securities and disclaims beneficial ownership of the securities, except to the extent of his/her pecuniary interest therein.

(6) The general partner of Tullis Opportunity Fund II, L.P. is Tullis Opportunity Fund II, LLC, the manager of which is James L.L. Tullis, who may be deemed to share voting and investment power with respect to the securities and disclaims beneficial ownership of the securities, except to the extent of his/her pecuniary interest therein.

(7) The manager of each of Waveland Ventures IV, LLC, Waveland Ventures IV QP, LLC, Waveland Ventures IA-A, LLC and Waveland Ventures IV-B, LLC is Waveland Venture Partners LLC, the managers of which are Michael J. Greer and Vickie J. Greer, each of whom may be deemed to share voting and investment power with respect to the securities and disclaims beneficial ownership of the securities, except to the extent of his/her pecuniary interest therein.

(8) The general partner of PED Estech, LLC is PED Investors, LLC, the manager of which is Thomas P. Ivanyi, who may be deemed to share voting and investment power with respect to the securities and disclaims beneficial ownership of the securities, except to the extent of his pecuniary interest therein.

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## PLAN OF DISTRIBUTION

We and the selling securityholders may offer the securities covered by this prospectus in any of the following ways (or in any combination) from time to time:

- to or through underwriters or dealers;
- directly to purchasers or to a single purchaser; or
- through agents; or
- in at the market offerings, within the meaning of Rule 415(a)(4) of the Securities Act, to or through a market maker or into an existing trading market, on an exchange or otherwise.

In addition, we and any selling securityholder may enter into derivative or other hedging transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If any applicable prospectus supplement indicates, in connection with such a transaction, such third parties may, pursuant to this prospectus and any applicable prospectus supplement, sell securities covered by this prospectus and any applicable prospectus supplement. If so, the third party may use securities borrowed from others to settle such sales and may use securities received from us to close out any related short positions. We and the selling securityholders may also loan or pledge securities covered by this prospectus and any applicable prospectus supplement to third parties, who may sell the loaned securities or, in an event of default in the case of a pledge, sell the pledged securities pursuant to this prospectus and any applicable prospectus supplement.

Any applicable prospectus supplement will set forth the terms of the offering of the securities covered by this prospectus, including:

- the name or names of any underwriters, dealers or agents and the amounts of securities underwritten or purchased by each of them, if any;
- any material relationship with the underwriter and the nature of such relationship, if any;
- the over-allotment options under which underwriters may purchase additional securities, if any;
- the public offering price or purchase price of the securities and the proceeds to us and any discounts, commissions, or concessions or other items constituting compensation allowed, re-allowed or paid to underwriters, dealers or agents, if any;

any securities exchanges on which the securities may be listed, if any; and

the manner for refunding any excess amount paid (including whether interest will be paid).

Any public offering price or purchase price and any discounts, commissions, concessions or other items constituting compensation allowed or re-allowed or paid to underwriters, dealers or agents may be changed from time to time.

The securities may be offered and sold from time to time in one or more transactions, including negotiated transactions, at a fixed price or prices or at varying prices determined at the time of sale. If underwriters are used in the sale of any securities, the securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions described above. The securities may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, the underwriters obligations to purchase the securities will be subject to certain conditions precedent. The underwriters will be obligated to purchase all of the securities if they purchase any of the securities.

We and the selling securityholders may sell the securities through agents from time to time. If required by applicable law, any applicable prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions we pay to them. Generally, unless otherwise indicated in any applicable

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prospectus supplement, any agent will be acting on a best efforts basis for the period of its appointment. If a dealer is used in the sale of the securities in respect of which the prospectus is delivered, we or the selling stockholders will sell such securities to the dealer, as principal. The dealer may then resell such securities to the public at varying prices to be determined by such dealer at the time of resale.

We and the selling securityholders may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase the securities from us at the public offering price set forth in any applicable prospectus supplement or other prices pursuant to delayed delivery or other contracts providing for payment and delivery on a specified date in the future. Any delayed delivery contracts will be subject only to those conditions set forth in any applicable prospectus supplement, and any applicable prospectus supplement will set forth any commissions we pay for solicitation of these delayed delivery contracts.

Each underwriter, dealer and agent participating in the distribution of any offered securities that are issuable in bearer form will agree that it will not offer, sell, resell or deliver, directly or indirectly, offered securities in bearer form in the United States or to United States persons except as otherwise permitted by Treasury Regulations Section 1.163-5(c)(2)(i)(D).

Offered securities may also be offered and sold, if so indicated in any applicable prospectus supplement, in connection with a remarketing upon their purchase, in accordance with a redemption or repayment pursuant to their terms, or otherwise, by one or more remarketing firms, acting as principals for their own accounts or as agents for us or the selling securityholders. Any remarketing firm will be identified and the terms of its agreements, if any, with us, and its compensation will be described in any applicable prospectus supplement.

We and the selling securityholders may sell equity securities in an offering at the market, as defined in Rule 415 under the Securities Act. A post-effective amendment to this Registration Statement will be filed to identify the underwriter(s) at the time of the take-down for at the market offerings.

Agents, underwriters and other third parties described above may be entitled under relevant underwriting or other agreements to indemnification by us or the selling securityholders against certain civil liabilities under the Securities Act, or to contribution with respect to payments which the agents, underwriters or other third parties may be required to make in respect thereof. Agents, underwriters and such other third parties may be customers of, engage in transactions with, or perform services for us or the selling Securityholders in the ordinary course of business.

## LEGAL MATTERS

The validity of the securities offered by this prospectus will be passed upon for us by Keating Muething & Klekamp PLL, Cincinnati, Ohio.

## EXPERTS

The consolidated financial statements and the related financial statement schedule, incorporated in this prospectus by reference from the Company s Annual Report on Form 10-K and the effectiveness of AtriCure s internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated by reference herein. Such financial statements and financial statement schedule have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The financial statements of Endoscopic Technologies, Inc. as of and for the year ended December 31, 2012, included in this prospectus, have been audited by Moss Adams LLP, independent auditors, as stated in their report. Such financial statements have been included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

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The financial statements of Endoscopic Technologies, Inc. as of and for the year ended December 31, 2011, included in this prospectus, have been audited by Mohler, Nixon & Wiliams, independent auditors, as stated in their report. Such financial statements have been included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

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## FINANCIAL STATEMENTS

## INDEX TO FINANCIAL STATEMENTS

## OF

## ENDOSCOPIC TECHNOLOGIES, INC.



## INDEX TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

## OF

## ATRICURE, INC. AND SUBSIDIARIES AND ENDOSCOPIC TECHNOLOGIES, INC.

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors

and Stockholders of

Endoscopic Technologies, Inc.

### Report on Financial Statements

We have audited the accompanying financial statements of Endoscopic Technologies, Inc. (the Company), which comprise the balance sheet as of December 31, 2012, and the related statements of operations, stockholders equity, and cash flows for the year then ended, and the related notes to the financial statements.

***Management s Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor s Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

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*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of the Company as of and for the year ended December 31, 2011 were audited by other auditors whose report, dated May 21, 2012, expressed an unmodified opinion on those statements.

Campbell, California

April 19, 2013

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors

and Stockholders of

Endoscopic Technologies, Inc.

We have audited the accompanying balance sheet of Endoscopic Technologies, Inc. (the Company) as of December 31, 2011, and the related statements of operations, stockholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

MOHLER, NIXON & WILLIAMS

Accountancy Corporation

Campbell, California

May 21, 2012

635 Campbell Technology Parkway Campbell, California 95008-5071 Tel 408-369-2400 Fax 408-879-9455

2600 El Camino Real, Suite 405 Palo Alto, California 94306-1719 Tel 650-494-3901 Fax 650-494-6756

150 Spear Street, Suite 925 San Francisco, California 94105-1535 Tel 415-817-5070 Fax 415-896-1721

www.mohlernixon.com

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**ENDOSCOPIC TECHNOLOGIES, INC.**

**BALANCE SHEETS**

| | September 30, 2013 (unaudited) | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | $ 3,092,596 | $ 996,587 | $ 6,774,865 |
| Restricted cash | | 1,000,000 | 1,000,000 |
| Accounts receivable, net | 2,825,481 | 3,245,594 | 3,249,610 |
| Inventories | 3,161,816 | 3,773,637 | 2,507,790 |
| Prepaid expenses and other current assets | 648,304 | 308,281 | 578,988 |
| Total current assets | 9,728,197 | 9,324,099 | 14,111,253 |
| Property and equipment, net | 1,452,075 | 1,497,571 | 1,153,098 |
| Intangible assets, net | 10,868,286 | 11,590,512 | 12,484,689 |
| Other assets | 50,569 | 164,199 | 182,624 |
| Total assets | $ 22,099,127 | $ 22,576,381 | $ 27,931,664 |
| Liabilities and stockholders equity | | | |
| Accounts payable | $ 1,609,475 | $ 1,503,563 | $ 2,157,655 |
| Accrued liabilities | 1,663,615 | 2,299,244 | 2,943,528 |
| Borrowings under line of credit | | 1,500,000 | 2,166,194 |
| Current portion of notes payable, net | 1,818,182 | 1,676,211 | |
| Total current liabilities | 5,091,272 | 6,979,018 | 7,267,377 |
| Long-term accrued liabilities | | 150,000 | 700,000 |
| Warrant liability, at fair value (Note 6) | 93,802 | | |
| Notes payable, less current portion | 8,181,818 | 2,687,154 | 8,193,337 |
| Total liabilities | 13,366,892 | 9,816,172 | 16,160,714 |
| Commitments and contingencies (Note 12) | | | |
| Stockholders equity | | | |
| Series D-1 convertible preferred stock, $0.001 par value; 21,921,253 shares authorized: 21,921,253, 21,921,253, and 7,754,314 shares issued and outstanding at September 30, 2013 (unaudited) and December 31, 2012 and 2011, respectively (aggregate liquidation preference of $16,660,152 and $5,893,278 at December 31, 2012 and 2011, respectively) | 12,011,803 | 12,011,803 | 5,402,721 |
| Series C-1 convertible preferred stock, $0.001 par value; 12,481,834 shares authorized, issued, and outstanding at | 8,353,978 | 8,353,978 | 8,353,978 |

| | | | |
|---|---|---|---|
| September 30, 2013 (unaudited) and December 31, 2012 and 2011 (aggregate liquidation preference of $8,762,247) | | | |
| Series B-1 convertible preferred stock, $0.001 par value; 12,871,729 shares authorized: 12,841,729 shares issued and outstanding at September 30, 2013 (unaudited) and December 31, 2012 and 2011 (aggregate liquidation preference of $11,237,155) | 10,346,888 | 10,346,888 | 10,346,888 |
| Series A-1 convertible preferred stock, $0.001 par value; 17,874,137 shares authorized, issued, and outstanding at September 30, 2013 (unaudited), December 31, 2012 and 2011 (aggregate liquidation preference of $23,851,070) | 39,954,470 | 39,954,470 | 39,954,470 |
| Common stock, $0.001 par value; 100,000,000 shares authorized: 3,660,235, 7,593,059, and 7,562,309 shares issued and outstanding at September 30, 2013 (unaudited) and December 31, 2012 and 2011, respectively | 3,967 | 7,900 | 7,870 |
| Additional paid-in capital | 17,338,586 | 17,833,855 | 14,642,649 |
| Notes receivables from stockholders | (152,422) | (943,987) | (935,908) |
| Accumulated deficit | (79,125,035) | (74,804,698) | (66,001,718) |
| Total stockholders equity | 8,732,235 | 12,760,209 | 11,770,950 |
| Total liabilities and stockholders equity | $ 22,099,127 | $ 22,576,381 | $ 27,931,664 |

*See accompanying notes.*

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**ENDOSCOPIC TECHNOLOGIES, INC.**

**STATEMENTS OF OPERATIONS**

| | Nine months ended September 30, | | Years ended December 31, | |
|---|---|---|---|---|
| | **2013 (unaudited)** | **2012 (unaudited)** | **2012** | **2011** |
| Revenue | $ 14,913,551 | $ 14,665,446 | $ 19,629,460 | $ 21,854,184 |
| Cost of revenue | 4,038,159 | 4,061,859 | 5,509,416 | 5,947,628 |
| Gross profit | 10,875,392 | 10,603,587 | 14,120,044 | 15,906,556 |
| Operating expenses: | | | | |
| Research and development | 2,395,420 | 2,393,483 | 3,136,677 | 3,060,308 |
| Sales and marketing | 7,027,332 | 7,972,994 | 10,577,945 | 13,364,199 |
| General and administrative | 2,892,903 | 2,860,690 | 3,746,779 | 3,252,991 |
| Depreciation and amortization | 1,079,100 | 1,086,192 | 1,445,707 | 1,679,179 |
| Stock-based compensation | 291,113 | 184,526 | 246,034 | 292,921 |
| Total operating expenses | 13,685,868 | 14,497,885 | 19,153,142 | 21,649,598 |
| Loss from operations | (2,810,476) | (3,894,298) | (5,033,098) | (5,743,042) |
| Gain on sale of product line | | | | 3,401,491 |
| Interest income | 94,368 | 141,488 | 224,578 | 202,148 |
| Interest and other expense, net | (1,591,722) | (836,283) | (1,002,218) | (888,216) |
| Beneficial conversion feature and cost of warrants | (12,507) | (2,978,944) | (2,992,242) | (183,333) |
| Net loss | $ (4,320,337) | $ (7,568,037) | $ (8,802,980) | $ (3,210,952) |

*See accompanying notes.*

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**ENDOSCOPIC TECHNOLOGIES, INC.**

**STATEMENTS OF STOCKHOLDERS EQUITY**

| | Series C-1 convertible preferred stock | | Series B-1 convertible preferred stock | | Series A-1 convertible preferred stock | | Common stock | | Additional paid-in capital | N rece fr stock |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | |
| 1 | 12,481,834 | $ 8,364,856 | 12,841,729 | $ 10,346,888 | 17,874,137 | $ 39,954,470 | 7,847,115 | $ 7,848 | $ 15,687,704 | $ (2,( |
| 2 | | | | | | | | | | |
| 3 | | (10,878) | | | | | | | | |
| | | | | | | | | | 189,824 | |
| | | | | | | | | | 183,333 | |
| | | | | | | | (308,299) | | (1,519,073) | 1, |
| | | | | | | | | | (196,737) | |
| | | | | | | | 23,493 | 22 | 4,677 | |
| | | | | | | | | | 284,581 | |

*See accompanying notes.*

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| k | Series C-1 convertible preferred stock | | Series B-1 convertible preferred stock | | Series A-1 convertible preferred stock | | Common stock | | Additional paid-in capital | N rece fr |
|---|---|---|---|---|---|---|---|---|---|---|
| ount | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | capital | stock |
| | | | | | | | | | 8,340 | |
| | | | | | | | | | | |
| 2,721 | 12,481,834 | 8,353,978 | 12,841,729 | 10,346,888 | 17,874,137 | 39,954,470 | 7,562,309 | 7,870 | 14,642,649 | (9 |
| 4,116 | | | | | | | | | | |
| 4,966 | | | | | | | | | | |
| | | | | | | | | | 2,939,052 | |
| | | | | | | | 30,750 | 30 | 6,120 | |
| | | | | | | | | | 244,701 | |
| | | | | | | | | | 1,333 | |

*See accompanying notes.*

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| | Series C-1 convertible preferred stock | | Series B-1 convertible preferred stock | | Series A-1 convertible preferred stock | | Common stock | | Additional paid-in capital | re stoc |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | |
| 3 | 12,481,834 | 8,353,978 | 12,841,729 | 10,346,888 | 17,874,137 | 39,954,470 | 7,593,059 | 7,900 | 17,833,855 | ( |
| | | | | | | | (3,957,824) | (3,958) | (787,607) | |
| | | | | | | | 25,000 | 25 | 1,225 | |
| | | | | | | | | | 291,113 | |
| 3 | 12,481,834 | $ 8,353,978 | 12,841,729 | $ 10,346,888 | 17,874,137 | $ 39,954,470 | 3,660,235 | $ 3,967 | $ 17,338,586 | $ ( |

*See accompanying notes.*

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**ENDOSCOPIC TECHNOLOGIES, INC.**

**STATEMENTS OF CASH FLOWS**

| | Nine months ended September 30, | | Years ended December 31, | |
|---|---|---|---|---|
| | 2013 (unaudited) | 2012 (unaudited) | 2012 | 2011 |
| Cash flows from operating activities: | | | | |
| Net loss | $ (4,320,337) | $ (7,568,037) | $ (8,802,980) | $ (3,210,952) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | | |
| Loss on disposal of property and equipment | 23,390 | 46,129 | 57,001 | 162,858 |
| Depreciation | 601,221 | 605,487 | 828,111 | 716,056 |
| Amortization of intangible assets | 722,226 | 722,360 | 964,177 | 963,123 |
| Stock-based compensation | 291,113 | 184,526 | 246,034 | 292,921 |
| Non-cash interest expense | 149,141 | 3,230,749 | 3,235,967 | 514,771 |
| Gain on sale of product line | | | | (3,401,491) |
| Changes in assets and liabilities: | | | | |
| Restricted cash | 1,000,000 | | | (1,000,000) |
| Accounts receivable | 420,113 | 573,115 | 4,016 | (36,184) |
| Inventory | 611,821 | (1,252,591) | (1,265,847) | (223,487) |
| Prepaid expenses and other current assets | (258,728) | 12,918 | 270,707 | (294,837) |
| Other assets | 113,630 | 7,062 | 18,425 | (112,245) |
| Accounts payable | 105,912 | 6,498 | (654,092) | 149,477 |
| Accrued liabilities | (785,629) | (1,323,843) | (1,194,284) | 492,916 |
| Net cash used by operating activities | (1,326,127) | (4,755,627) | (6,292,765) | (4,987,074) |
| Cash flows from investing activities: | | | | |
| Net cash proceeds on sale of product line | | | | 3,868,712 |
| Purchase of property and equipment, and transfers from inventory | (579,115) | (945,898) | (1,229,585) | (680,115) |
| Acquisition of intangible asset | | (70,000) | (70,000) | |
| Net cash provided (used) by investing activities | (579,115) | (1,015,898) | (1,299,585) | 3,188,597 |
| Cash flows from financing activities: | | | | |
| Proceeds from sale of common stock | 1,250 | 6,150 | 6,150 | 4,699 |
| Proceeds from sale of preferred stock, net | | 1,928,884 | 2,474,116 | 500,002 |
| Proceeds from issuance of convertible promissory notes, net | | | | 500,000 |
| Proceeds from borrowings | 10,000,000 | | 2,000,000 | 6,666,194 |
| Repayments of borrowing | (5,999,999) | (1,166,194) | (2,666,194) | (2,853,581) |
| Net cash provided by financing activities | 4,001,251 | 768,840 | 1,814,072 | 4,817,314 |

| | | | | |
|---|---|---|---|---|
| Net increase (decrease) in cash and cash equivalents | 2,096,009 | (5,002,685) | (5,778,278) | 3,018,837 |
| Cash and cash equivalents at beginning of year | 996,587 | 6,774,865 | 6,774,865 | 3,756,028 |
| Cash and cash equivalents at end of year | $ 3,092,596 | $ 1,772,180 | $ 996,587 | $ 6,774,865 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest | $ 631,443 | $ 415,355 | $ 538,250 | $ 366,897 |
| Non-cash investing and financing items: | | | | |
| Issuance of common stock warrants | $ | $ | $ | $ 2,668 |
| Issuance of Series D-1 convertible preferred stock warrants | $ 93,802 | $ | $ | $ 187,156 |
| Beneficial conversion feature on promissory notes | $ | $ 2,939,052 | $ 2,939,052 | $ 183,333 |
| Conversion of convertible promissory notes payable and accrued interest into convertible preferred stock | $ | $ 4,134,966 | $ 4,134,966 | $ |
| Repurchase of common stock through cancellation of stockholder notes | $ 791,565 | $ | $ | $ |

*See accompanying notes.*

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## NOTE 1 THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

Endoscopic Technologies, Inc. (the Company), doing business as ESTECH, was incorporated in California in April 1996 and reincorporated in Delaware in October 2009. The Company develops, manufactures, and markets a variety of medical devices to assist surgeons in performing minimally invasive cardiac surgery.

**Liquidity** Through December 31, 2012, the Company has incurred operating losses resulting in an accumulated deficit of approximately $75,000,000. Additional funds are necessary to maintain current operations and to continue development activities. The Company intends to raise additional funds through the sale of its equity securities and/or debt financings. However, there can be no assurance that sufficient funding will be available to allow the Company to successfully complete and achieve widespread market acceptance of its products. If the Company is unable to obtain necessary funds, significant reductions in spending and the delay or cancellation of planned activities may be necessary. These actions would have a material adverse effect on the Company s business, results of operations and prospects.

**Unaudited interim financial information** The accompanying interim balance sheet as of September 30, 2013, the statements of operations and cash flows for the nine months ended September 30, 2013 and 2012, and the statement of stockholders equity for the nine months ended September 30, 2013 are unaudited. These unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of the Company s management, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments necessary for the fair presentation of the Company s statement of financial position as of September 30, 2013, and its results of operations and its cash flows for the nine months ended September 30, 2013 and 2012. The financial data and other financial information disclosed in these notes to financial statements related to September 30, 2013 and for the nine months ended September 30, 2013 and 2012 are also unaudited. The results for the nine months ended September 30, 2013 are not necessarily indicative of the results expected for the full fiscal year.

**Estimates** The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash equivalents** The Company considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash equivalents. As of September 30, 2013 (unaudited) December 31, 2012 and 2011, cash and cash equivalents consist of cash deposited with banks and money market funds. The recorded carrying amount of cash equivalents, which is cost plus accrued interest, approximates fair value. The Company places its cash equivalents with high credit-quality financial institutions.

**Restricted cash** Restricted cash of zero as of September 30, 2013 (unaudited) and $1,000,000 as of December 31, 2012 and 2011 relates to a cash balance required by the Company s growth capital line of credit (Note 4).

**Concentrations of credit risk** Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited with federally insured commercial banks in the United States and at times cash balances may be in excess of federal insurance limits. Accounts receivable are stated at the amount the Company expects to collect. The Company generally does not require collateral or other security in support of accounts receivable. The Company performs ongoing credit evaluations of its customers financial condition and maintains an allowance for doubtful accounts to ensure trade receivables are not overstated due to uncollectibility. The allowance for doubtful accounts is determined based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, significant one-time events, and historical experiences. Allowances are recorded for individual accounts when the Company becomes aware of a customer s inability to meet its financial obligations, such as in

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the case of bankruptcy, deterioration in the customer s operating results, or change in financial position. Based on management s assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of September 30, 2013 (unaudited) and December 31, 2012 and 2011, the Company s allowance for doubtful accounts receivable, including sales return reserves, was approximately $ 109,000, $150,000, and $379,000, respectively.

The Company s revenues are derived from customers located in and outside the United States of America. One customer accounted for 10% (unaudited) of total accounts receivable as of September 30, 2013, and approximately 21% (unaudited) of total revenues for the nine months ended September 30, 2013. One customer accounted for approximately 19% (unaudited) of total revenues for the nine months ended September 30, 2012. One customer accounted for approximately 11% of total accounts receivables at December 31, 2012 and approximately 17% of total revenue in 2012. One customer accounted for approximately 10% of total accounts receivable at December 31, 2011 and no individual customer accounted for more than 10% of total revenue in 2011.

Net purchases include purchases from two vendors of approximately 41% in 2012. Accounts payable to these vendors totaled approximately 44% at December 31, 2012. Net purchases include purchases from two vendors of approximately 46% and 35% for the nine months ended September 30, 2013 and 2012, respectively (unaudited). Accounts payable to these vendors totaled approximately 31% at September 30, 2013 (unaudited).

**Inventories** Inventories are valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of market value. The Company periodically reviews its inventories for potential slow-moving or obsolete items and writes down specific items to net realizable value as appropriate. Inventory consists primarily of finished goods and purchased parts and unsterilized finished goods.

**Property and equipment** Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, generally 27 to 120 months. Leasehold improvements are amortized using the term of the related lease or the economic life of improvements, if shorter. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statements of operations.

**Intangible assets** Intangible assets comprise internally generated patents and licensing agreements, which are stated at cost less accumulated amortization. In addition, intangible assets include technology and distribution rights acquired from Boston Scientific Corporation (BSC) for the Company s COBRA product line (Note 11). Amortization is computed using the straight-line method over the estimated useful life of the respective patents or licensing agreements, generally 17 to 20 years. The Company evaluates the recoverability of identifiable intangible assets whenever events or changes in circumstances indicate that an intangible assets carrying amount may not be recoverable. No impairment losses have been recorded to date.

**Long-lived assets** The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No such impairments have been identified to date.

**Research and development** Research and development costs are charged to operations as incurred.

**Revenue recognition** The Company accounts for revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605, *Revenue Recognition*. The Company determines the timing of revenue recognition based upon factors such as passage of title, payment terms and ability to return products. 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.

Product revenues are generated primarily from sales of the Company s medical tools. Pursuant to the Company s standard terms of sale, the Company recognizes revenue at the point of shipment to its customers, under the contractual terms, provided that no significant vendor obligation exists and collections of accounts receivable are reasonable assured. 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.

**Stock-based compensation** The Company uses the estimated grant date calculated value method of accounting for stock-based compensation. The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years.

**Income taxes** Deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities and net operating loss (NOL) and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company classifies any liabilities for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized in the provision for income taxes. The Company had no liabilities for unrecognized tax benefits at September 30, 2013 (unaudited) and December 31, 2012 and 2011.

**Reclassifications** Certain reclassifications were made to the 2011 financial statements to conform them to the 2012 financial statement presentation.

**Subsequent events** The Company has evaluated subsequent events through January 7, 2014, which is the date the financial statements were available to be issued. Subsequent events after April 19, 2013 are unaudited.

**NOTE 2 FAIR VALUE MEASUREMENT**

The fair value measurements standard establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include:

Quoted market prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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The asset s or liability s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at September 30, 2013 (unaudited) and December 31, 2012 and 2011.

The Company s money market funds of approximately $2,255,000, $305,000, and $3,005,000 at September 30, 2013 (unaudited) and December 31, 2012 and 2011, respectively, are valued at the net asset value of shares held by the Company at year end and are considered level 1 within the fair value hierarchy. The money market funds are included in cash and cash equivalents as of September 30, 2013 (unaudited) and December 31, 2012 and 2011.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**NOTE 3 SIGNIFICANT BALANCE SHEET COMPONENTS**

**Inventories** Inventories consisted of approximately the following at:

| | September 30, 2013 (unaudited) | December 31, 2012 | 2011 |
|---|---|---|---|
| Purchased parts and unsterilized finished goods | $ 1,135,000 | $ 1,775,000 | $ 1,015,000 |
| Finished goods | 2,027,000 | 1,999,000 | 1,493,000 |
| | $ 3,162,000 | $ 3,774,000 | $ 2,508,000 |

At September 30, 2013 (unaudited) and December 31, 2012 and 2011, the reserve for obsolescence was $352,000, $309,000, and $497,000, respectively.

**Property and equipment** Property and equipment consisted of approximately the following at:

| | September 30, 2013 (unaudited) | December 31, 2012 | 2011 |
|---|---|---|---|
| Equipment | $ 2,178,000 | $ 1,961,000 | $ 1,438,000 |
| Demonstration equipment | 2,179,000 | 1,991,000 | 1,608,000 |
| Computer equipment and software | 665,000 | 618,000 | 528,000 |
| Furniture and fixtures | 201,000 | 200,000 | 196,000 |
| | 5,223,000 | 4,770,000 | 3,770,000 |

| | | | |
|---|---|---|---|
| Less: accumulated depreciation | (3,771,000) | (3,272,000) | (2,617,000) |
| | $ 1,452,000 | $ 1,498,000 | $ 1,153,000 |

Depreciation expense for the years ended December 31, 2012 and 2011 was approximately $828,000 and $716,000, respectively. Depreciation expense for the nine months ended September 30, 2013 and 2012 was approximately $601,000 and $605,000, respectively (unaudited).

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**Intangible assets** The components of intangible assets were approximately as follows as of:

| | September 30, 2013 (unaudited) | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| COBRA product line | $ 15,420,000 | $ 15,420,000 | $ 15,420,000 |
| Medtronic license | 1,800,000 | 1,800,000 | 1,800,000 |
| Patents and other intangible assets | 1,822,000 | 1,822,000 | 1,752,000 |
| | 19,042,000 | 19,042,000 | 18,972,000 |
| Less: accumulated amortization | (8,174,000) | (7,451,000) | (6,487,000) |
| | $ 10,868,000 | $ 11,591,000 | $ 12,485,000 |

Amortization expense for the years ended December 31, 2012 and 2011 was approximately $964,000 and $963,000, respectively. Amortization expense for the nine months ended September 30, 2013 and 2012, respectively was approximately $722,000 (unaudited). (See Note 11 for COBRA product line and Medtronic license). Future amortization is expected to be approximately as follows:

| | |
|---|---|
| Years ending December 31: | |
| 2013 | $ 964,000 |
| 2014 | 944,000 |
| 2015 | 944,000 |
| 2016 | 944,000 |
| 2017 | 944,000 |
| Thereafter | 6,851,000 |
| | $ 11,591,000 |

As of September 30, 2013 (unaudited), the future amortization for the three months remaining in the year ending December 31, 2013 is approximately $241,000. The amortization remains the same for the remaining years listed in the schedule above.

**Accrued liabilities** Accrued liabilities consisted of approximately the following at:

| | September 30, 2013 (unaudited) | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Employee-related liabilities | $ 556,000 | $ 399,000 | $ 423,000 |
| Professional and other fees | 94,000 | 187,000 | 481,000 |
| Commission and bonus | 368,000 | 463,000 | 1,206,000 |
| Deferred rent | | | 6,000 |

| | | | |
|---|---|---|---|
| Other accrued liabilities | 646,000 | 1,250,000 | 828,000 |
| Total accrued liabilities current | $ 1,664,000 | $ 2,299,000 | $ 2,944,000 |
| Other liabilities noncurrent | $ | $ 150,000 | $ 700,000 |

In 2009, the Company agreed to settle a dispute with a government agency regarding allegations that the Company marketed one of its products in a manner without appropriate government agency approval. The Company agreed to such settlement without admitting to such allegations. Under the settlement, the Company paid approximately $337,000 in 2012, and will pay approximately $550,000 in 2013 and $150,000 in 2014. As of December 31, 2012, approximately $550,000 and $150,000 have been recorded as a current liability and noncurrent liability, respectively.

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**NOTE 4 FINANCING ARRANGEMENTS**

In December 2011, the Company amended its growth capital line with a financial institution that provides for a $3,000,000 revolving line of credit to finance accounts receivable and inventory, and a $1,000,000 term loan to finance working capital requirements. The agreement requires that the Company comply with certain loan covenants as defined.

**Line of credit** The line of credit agreement provides for borrowings of: (a) 80% of eligible accounts receivable, plus (b) the lesser of (i) 70% of the Borrower s Eligible Foreign Accounts or (ii) One Million Two Hundred Fifty Thousand Dollars ($1,250,000), plus (c) the lesser of (i) 25% of the value of Borrower s Eligible Inventory (valued at the lower of cost or wholesale fair market value) or (ii) Five Hundred Thousand Dollars ($500,000), each as determined by Bank from Borrower s most recent Transaction Report.

The amended revolving line of credit was repaid in January 2012 and an additional $2,000,000 was drawn against the amended revolving line of credit during 2012. The revolving line of credit expires in December 2014, and borrowings under the line of credit accrue interest at 2.75% above the prime rate. As of September 30, 2013 and December 31, 2012 and 2011, aggregate borrowings under the growth capital line were zero (unaudited), approximately $1,500,000 and $2,166,000, respectively.

On March 21, 2013, the Company entered into a secured promissory note for $10,000,000. The note matures on December 21, 2016, and borrowings under the note accrue interest at 10% per annum. The note was used to repay in full the outstanding borrowings under the Company s growth capital line and term loans (Note 4) of approximately $6,127,000. In connection with the new note, the Company issued a warrant to purchase 394,737 shares of Series D-1 convertible preferred stock (Series D-1) for $0.76 per share. The borrowings are secured by substantially all the Company s assets.

**Long-term debt** Along with the revolving line of credit, the Company entered into an agreement with the same financial institution for a $1,000,000 term loan and a separate agreement with another financial institution for a $3,500,000 term loan. Principal payments under both term loans are repayable in 30 monthly installments beginning in January 2013; however, there are minimum interest payments beginning in January 2012. Borrowings under the $1,000,000 term loan accrue interest at 4.5% per annum paid monthly, with a final payment upon expiration of the loan in June 2015 of 5.5%. Borrowings under the $3,500,000 term loan accrue interest at 10.5% per annum paid monthly, with a final payment upon expiration of the loan in June 2015 of 4.5%. As of September 30, 2013 (unaudited) and December 31, 2012 and 2011, aggregate borrowings under the term loans and the secured promissory note were approximately $10,000,000 (unaudited) $4,500,000, and $4,500,000, respectively.

In December 2011, in connection with its amended growth capital line and term loans, the Company issued warrants to purchase 50,000 shares of its common stock and 458,224 shares of its Series D-1 (Note 6) which are valued at $3,000 and $187,000, respectively, to be amortized over the term of the debts.

Future minimum payments under the growth capital line and term loans as of December 31, 2012 are approximately as follows:

| | |
|---|---|
| Years ending December 31: | |
| 2013 | $ 1,676,000 |
| 2014 | 1,839,000 |

| | |
|---|---|
| 2015 | 985,000 |
| | 4,500,000 |
| Less: debt discount | (137,000) |
| | 4,363,000 |
| Less: current portion | 1,676,000 |
| Long-term portion | $ 2,687,000 |

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Future minimum payments under the secured promissory note as of September 30, 2013 (unaudited) are approximately as follows:

| | |
|---|---|
| Years ending December 31: | |
| 2013 | $ |
| 2014 | 2,728,000 |
| 2015 | 3,636,000 |
| 2016 | 3,636,000 |
| | 10,000,000 |
| Less: current portion | 1,818,000 |
| Long-term portion | $ 8,182,000 |

**Convertible notes payable** In November and December 2010 and January 2011, the Company issued convertible notes payable aggregating $3,500,000 with an interest rate of 10% per annum. In September 2012, approximately $4,135,000 of these notes and accrued interest thereon was converted to shares of Series D-1 at 50% of the fair value. The amounts outstanding on these notes as of December 31, 2012 and 2011, including interest, are zero and approximately $3,883,000, respectively.

The convertible promissory notes issued in 2010 and 2011 had conversion rates that provided for a discount from the fair value of Series D-1. As a result, during the years ended December 31, 2012 and 2011, the Company recognized a beneficial conversion feature of approximately $2,939,000 and $183,000, respectively, on these convertible notes as an increase to additional paid-in capital and interest expense.

**NOTE 5 CONVERTIBLE PREFERRED STOCK**

At September 30, 2013 (unaudited) and December 31, 2012, the authorized capital stock of the Company consisted of 165,148,953 shares of capital stock, comprising 100,000,000 shares of common stock and 65,148,953 shares of convertible preferred stock. All classes of the Company s stock a par value of $0.001 per share.

At September 30, 2013 (unaudited) and December 31, 2012, convertible preferred stock consisted of approximately the following:

| | **Number of shares authorized** | **Number of shares issued and outstanding** | **Proceeds, net of issuance costs** | **Liquidation preference** |
|---|---|---|---|---|
| Series A-1 | 17,874,137 | 17,874,137 | $ 39,954,000 | $ 23,851,000 |
| Series B-1 | 12,871,729 | 12,841,729 | 10,347,000 | 11,237,000 |
| Series C-1 | 12,481,837 | 12,481,834 | 8,354,000 | 8,762,000 |
| Series D-1 | 21,921,253 | 21,921,253 | 12,012,000 | 16,660,000 |
| | 65,148,956 | 65,118,953 | $ 70,667,000 | $ 60,510,000 |

The significant features of the Company s convertible preferred stock are as follows:

**Dividends** The holders of Series D-1 are entitled to receive noncumulative dividends, prior and in preference to the declaration or payment of any dividend or distribution to the holders of Series C-1, Series B-1, Series A-1, and common stock, at the per annum rate of 8% of the original issuance price as adjusted for stock splits, stock dividends, and stock combinations, when and if declared by the Board of Directors.

The holders of Series C-1 and Series B-1 are entitled to receive noncumulative dividends, prior and in preference to the declaration, or payment of any dividend or distribution to the holders of Series A-1 and common stock, at the per annum rate of 8% of the original issuance price as adjusted for stock splits, stock dividends, and stock combinations, when and if declared by the Board of Directors. The original issuance price per share for Series D-1, Series C-1, Series B-1, and Series A-1 is $0.76, $0.702, $0.87505, and $1.33439, respectively. As of December 31, 2012, no dividends have been declared.

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**Liquidation** In the event of any liquidation, dissolution, or winding up of the Company, either voluntary or involuntary, the holders of Series D-1 are entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of Series C-1, Series B-1, Series A-1, and common stock, an amount equal to the original issuance price for each outstanding shares of $0.76 per share, plus all declared but unpaid dividends on such shares.

Thereafter, if and only if payment of the amount required to be paid to Series D-1 is made in full, the holders of Series C-1 and Series B-1 are entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of Series A-1 and common stock, an amount per share in cash equal to $0.702 and $0.87505, respectively, plus all declared but unpaid dividends on such shares.

Thereafter, if and only if payment of the amount required to be paid to Series D-1, Series C-1, and Series B-1 is made in full, the holders of Series A-1 are entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of common stock, an amount per share in cash equal to $1.33439, plus all declared but unpaid dividends on such shares.

After payment has been made to the holders of convertible preferred stock for the full amounts to which they are entitled, then all of the remaining assets of the Company available for distribution are distributed ratably among the holders of common stock.

**Conversion** Each share of convertible preferred stock is convertible at the option of the holder into shares of common stock of the Company as determined by dividing the original issuance price by the then effective conversion price for such series. The initial conversion price per share of Series D-1, Series C-1, Series B-1, and Series A-1 is $0.76, $0.702, $0.83273, and $1.17973, respectively.

Each share of convertible preferred stock automatically converts into the number of shares of common stock into which such shares are convertible at the then effective conversion rate upon the closing of an initial public offering resulting in aggregate cash proceeds of not less than $35,000,000 and a per share offering price of common stock of at least $1.50.

**Voting rights** The holder of each share of convertible preferred stock has voting rights equal to the number of shares of common stock into which it is convertible and votes together as one class with the common stock. Each share of common stock is entitled to one vote.

## NOTE 6 WARRANTS

The following table summarizes the warrants issued and outstanding as of September 30, 2013 (unaudited):

| Description of warrants | Issuance date | Warrants issued | Warrants outstanding | Exercise price per share | Fair value of the warrants at issuance date | Expiration date |
|---|---|---|---|---|---|---|
| Common stock | December 2004 | 18,000 | 18,000 | $ 2.50 | $ 54,000 | December 2014 |
| Convertible preferred stock | September 2008 | 31,524 | 31,524 | $ 0.88 | $ 26,000 | June 2018 |
| Common stock | March 2009 | 5,577,081 | 5,577,081 | $ 0.20 | $ 436,000 | March 2014 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Common stock | March - August 2010 | 365,000 | 365,000 | $ 0.20 | $ 36,000 | March - August 2017 |
| Common stock | December 2011 | 50,000 | 50,000 | $ 0.20 | $ 3,000 | December 2021 |
| Convertible preferred stock | December 2011 | 458,224 | 458,224 | $ 0.76 | $ 187,000 | December 2021 |
| Convertible preferred stock | March 2013 | 394,737 | 394,727 | $ 0.76 | $ 94,000 | December 2023 |

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In December 2011, the Company issued a warrant to purchase 50,000 shares of common stock at $0.20 per share. The warrant was issued in conjunction with a December 2011 term loan and amendment to the growth capital line entered in November 2009 (Note 4). This warrant is currently exercisable and expires in December 2021. The Company valued the warrant using the Black-Scholes option pricing model, which management has determined approximates fair value, with the following weighted-average assumptions: fair market value of $0.12 per share, volatility of 45%, term of ten years, and a risk-free interest rate of 1.89%. The fair value of this warrant of approximately $3,000 was recorded as additional paid-in capital and as prepaid interest expense and is being amortized to interest expense over the remaining life of the loan agreement.

In December 2011, the Company issued a warrant to purchase 458,224 shares of Series D-1 at $0.76 per share. The warrant was issued in conjunction with a December 2011 amendment to the growth capital line that included the issuance of term loans. This warrant is currently exercisable and expires in December 2021. The Company valued the warrant using the Black-Scholes option pricing model, which management has determined approximates fair value, with the following weighted-average assumptions: fair market value of $0.76 per share, volatility of 45%, term of ten years, and a risk-free interest rate of 1.89%. The fair value of this warrant of approximately $187,000 was recorded as additional paid-in capital and prepaid interest expense and is being amortized to interest expense over the remaining life of the loan agreement.

In March 2013 the Company issued a warrant to purchase 394,737 shares of Series D-1 for $0.76 per share. The warrant was issued in conjunction with a $10,000,000 secured promissory note. This warrant is currently exercisable and expires in December 2023. The Company valued the warrant using the Black-Scholes option pricing model, which management has determined approximates fair value, with the following weighted-average assumptions: fair market value of $0.76 per share, volatility of 38%, term of four years, and a risk-free interest rate of 1.89%. The fair value of this warrant of approximately $94,000 was recorded as a liability and prepaid interest expense and is being amortized to interest expense over the remaining life of the loan agreement. The warrants have been remeasured at September 30, 2013 (unaudited), with approximately no change in fair value.

## NOTE 7 NOTES RECEIVABLE FROM STOCKHOLDERS

During 2003, the Company received full recourse promissory notes totaling approximately $1,465,000 from certain employees to exercise their stock options. The notes bear interest at a rate of 1.6% compounded semi-annually and are collateralized by the restricted common stock issued under the exercise of the options. The notes are due and payable in full on October 15, 2011 with interest payable in arrears. As of December 31, 2012, the due date was not extended and the stockholders are in default. During 2011, $575,000 of these notes and accumulated interest thereon of $77,000 was forgiven and 162,500 shares of common stock were cancelled in exchange for such forgiveness. As of December 31, 2012 and September 30, 2013 (unaudited), approximately $113,000 of the notes remains outstanding and interest payable of approximately $16,000 is in arrears.

During 2003, the Company received full recourse promissory notes totaling approximately $969,000 from certain employees to exercise their warrants. The notes bear interest at a rate of 1.6% compounded semi-annually and are collateralized by the restricted common stock issued under the exercise of the options. The notes are due and payable in full on October 15, 2011 with interest payable in arrears. During 2011, $1,064,000 of these notes and interest were forgiven. As of December 31, 2011, there is no outstanding balance payable.

During 2011, the Company cancelled notes receivable and accrued interest of $1,716,000 upon the return of 308,299 shares of common stock.

During 2009, the Company received recourse promissory notes totaling approximately $792,000 from certain employees to exercise their stock options. The notes bear interest at a rate of 0.8% and are collateralized by the restricted common stock issued under the exercise of the options. The notes are due and payable in full on May 14, 2015 with interest payable in arrears. As of December 31, 2012, $792,000 of the notes remain outstanding and interest payable of approximately $22,000 is in arrears. In 2013 these notes were paid in full.

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## NOTE 8 STOCK OPTION PLAN

Stock-based compensation expense for all share-based payment awards granted after January 1, 2006, and for previous awards modified, repurchased, or cancelled after January 1, 2006, is based on the grant-date calculated value. The Company recognizes these compensation costs, net of an estimated forfeiture rate, and recognizes the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years. The Company estimated the forfeiture rate for the nine months ended September 30, 2013 (unaudited) and the years ended December 31, 2012 and 2011 based on its historical experience for annual grant years where the majority of the vesting terms have been satisfied.

For the nine months ended September 30, 2013 and 2012 (unaudited) and the years ended December 31, 2012 and 2011, the Company recorded stock-based compensation expense of approximately $291,000, $185,000, $246,000, and $293,000, respectively.

In September 2008, the Company adopted the 2008 Equity Incentive Plan (the Plan). The Plan served as the successor to the Company s 1998 Stock Option Plan. Pursuant to the terms of the Plan, 13,901,908 shares of common stock have been reserved for future issuance.

Options granted under the Plan vest over a period not to exceed five years and are exercisable for periods not exceeding ten years. Incentive and non-qualified stock options granted to stockholders who own greater than 10% of the Company s outstanding stock at the date of grant must be issued at not less than 110% of the estimated fair value of the common stock on the date of grant. Incentive and non-qualified stock options granted to any other employee, director or consultant must be issued at a price no less than 100% or 85%, respectively, of the estimated fair value of the common stock on the date of grant. Generally, options granted under the Plan are immediately exercisable and vest ratably over four years. Unvested stock option exercises are subject to repurchase upon termination of the holder s status as an employee or consultant. At December 31, 2012, there were zero shares that had been early exercised that were subject to the Company s repurchase right at that date.

In February 2013, the Company offered eligible participants the decision to exchange certain outstanding options to purchase shares of the Company s common stock granted under the Plan for new options the Company granted under the Plan. The new options have an exercise price of $0.05 per share. In March 2013, 8,697,352 shares were exchanged.

Stock option activity for the nine months ended September 30, 2013 is as follows (unaudited):

| | Shares | Weighted average exercise price per share | Weighted average remaining contractual life (in years) |
|---|---|---|---|
| Outstanding at December 31, 2012 | 9,681,865 | $ 0.22 | 7.29 |
| Options granted | 9,806,230 | $ 0.05 | |
| Options exercised | (25,000) | $ 0.05 | |
| Options cancelled/forfeited/expired | (9,523,365) | $ 0.20 | |
| Outstanding at September 30, 2013 | 9,939,730 | $ 0.07 | 6.97 |

| | | | | |
|---|---|---|---|---|
| Vested and expected to vest at September 30, 2012 (1) | 9,568,667 | $ | 0.07 | 6.90 |
| Exercisable at September 30, 2013 | 7,438,239 | $ | 0.07 | 6.97 |

(1) The expected to vest options are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding options.

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Stock option activity for the year ended December 31, 2012 is as follows:

| | Shares | Weighted average exercise price per share | Weighted average remaining contractual life (in years) |
|---|---|---|---|
| Outstanding at December 31, 2011 | 9,280,524 | $ 0.23 | 7.88 |
| Options granted | 1,616,780 | $ 0.20 | |
| Options exercised | (30,750) | $ 0.20 | |
| Options cancelled/forfeited/expired | (1,184,689) | $ 0.36 | |
| Outstanding at December 31, 2012 | 9,681,865 | $ 0.22 | 7.29 |
| Vested and expected to vest at December 31, 2012 (1) | 9,341,250 | $ 0.22 | 7.28 |
| Exercisable at December 31, 2012 | 6,857,748 | $ 0.22 | 6.83 |

(1) The expected to vest options are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding options.

The total pretax intrinsic value of options exercised during nine months ended September 30, 2013 and 2012 (unaudited) and the years ended December 31, 2012 and 2011 was zero. The intrinsic value is the difference between the estimated fair value of the Company s common stock at the date of exercise and the exercise price for in-the-money options. The weighted average grant date calculated fair value of options granted during the years ended December 31, 2012 and 2011 was $0.028 and $0.038, respectively. The weighted average grant date calculated fair value of options granted during the nine month period ended September 30, 2013 and 2012 (unaudited) was $0.015 and $0.028, respectively.

As of September 30, 2013 (unaudited) and December 31, 2012, there was approximately $119,000 and $95,000, respectively, of unamortized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 1.7 years.

Cash received from option exercises and purchases of shares under the Plan for the nine months ended September 30, 2013 and 2012 (unaudited) and the year ended December 31, 2012 was approximately $1,300, $6,200 and $6,200, respectively.

The calculated fair value of option grants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Nine months ended September 30, 2013 (unaudited) | Nine months ended September 30, 2012 (unaudited) |
|---|---|---|
| Expected dividend yield (1) | 0% | 0% |

| | | |
|---|---|---|
| Risk-free interest rate (2) | 0.40% - 2.48% | 0.63% - 1.42% |
| Expected volatility (3) | 38% | 45% |
| Expected life (in years) (4) | 6.97 | 5.93 |

| | **Stock options** | |
|---|---|---|
| | **Years ended December 31,** | |
| | **2012** | **2011** |
| Expected dividend yield (1) | 0% | 0% |
| Risk-free interest rate (2) | 0.63% - 1.42% | 1.16% - 2.64% |
| Expected volatility (3) | 45% | 45% |
| Expected life (in years) (4) | 5.93 | 5.91 |

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(1) The Company has no history or expectation of paying cash dividends on its common stock.
(2) The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the awards in effect at the time of grant.
(3) The Company estimates the volatility of its common stock at the date of grant based on the implied volatility of publicly traded options on its common stock, with a term of one year or greater. For the nine months ended September 30, 2013 (unaudited) and the years ended December 31, 2012 and 2011, the Company used an equally weighted average of trailing volatility and market based implied volatility for the computation.
(4) The expected life represents the period of time that options granted are expected to be outstanding.

**NOTE 9 INCOME TAXES**

Income taxes have been provided in accordance with ASC 740, *Accounting for Income Taxes*. ASC 740 requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is more likely than not. Realization of the future tax benefits is dependent on the Company s ability to generate sufficient taxable income within the carryforward period. Because of the Company s recent history of operating losses, management believes that recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, has provided a valuation allowance.

As of December 31, 2012 and 2011, the Company had deferred tax assets of approximately $23,629,000 and $21,077,000, respectively. Deferred tax assets primarily relate to net operating loss and tax credit carryforwards. Realization of the deferred tax assets is dependent upon future taxable income, if any, the amount and timing of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by approximately $2,552,000 during 2012 and approximately $1,585,000 during 2011.

As of December 31, 2012 and 2011, the Company had federal NOL carryforwards of approximately $64,351,000 and $56,843,000, respectively. The Company also had federal research and development tax credit carryforwards of approximately $773,000 and $688,000, respectively. The federal NOL and tax credit carryforwards will expire at various dates beginning in 2023 if not utilized.

As of December 31, 2012 and 2011, the Company had state NOL carryforwards of approximately $39,509,000 and $32,137,000, respectively. The Company also had state research and development tax credit carryforwards of approximately $918,000 and $798,000, respectively. The state net operating loss carryforwards will expire at various dates beginning in 2017 if not utilized. The state tax credit carryforwards do not expire.

Utilization of the net operating loss carryforwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code No. 382, as amended and similar state provisions. In 2011, the Company completed a study and determined there had been changes in ownership that would restrict the Company s ability to utilize approximately $18,627,000 of federal NOL carryforwards since inception. The deferred tax assets at December 31, 2012 and 2011 have been adjusted for the restriction.

A number of the Company s tax returns remain subject to examination by taxing authorities. These include U.S. federal returns for 1999 and later years, and tax returns for certain states for 2003 and later years.

**NOTE 10 BENEFIT PLANS**

**401(k) plan** The Company has a 401(k) plan in which each participant may elect to contribute portions of their salary, subject to statutory limitations, and provides for a matching contribution, as defined by the plan.

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**NOTE 11 RELATED PARTY TRANSACTIONS**

On August 10, 2005, the Company completed a series of agreements with BSC, which included the following:

A securities purchase agreement, whereby BSC purchased 666,667 shares of the Company s Series D convertible preferred stock (Series D) for cash at $15.00 per share, for aggregate cash proceeds of approximately $10,000,000;

Amendment to the existing merger agreement and securities purchase agreement, whereby, among other items, BSC s exclusive option to acquire the Company was extended, the contingent payments payable by BSC under the merger agreement were increased, and certain financial and operating covenants were relaxed; and

Asset purchase, distribution, supply, and technology license agreements resulting in the transfer to the Company the right to design, develop, manufacture, and sell BSC s COBRA product.

In connection with these agreements, the Company recorded the issuance of Series D based on the sum of: i) cash proceeds of approximately $10,000,000 received from BSC and ii) the fair value of BSC s COBRA product line transferred to the Company, based on an independent valuation of approximately $15,420,000 for an aggregate value of approximately $25,420,000 or $38.13 per share. The value of the COBRA product line has been recorded as an intangible asset, and is being amortized over the term of the technology license of 20 years.

On September 17, 2007, the Company entered into several agreements with BSC. These agreements terminated BSC s option to acquire the Company, reduced the royalty payable on sale of COBRA technology products from 12% to 3%.

**NOTE 12 COMMITMENTS AND CONTINGENCIES**

Operating leases The Company leases its facilities under noncancelable operating leases expiring in December 2014. Rent expense related to the Company s operating leases was approximately $417,000 and $409,000 for the years ended December 31, 2012 and 2011, respectively. Rent expense related to the Company s operating leases was approximately $344,000 and $312,000 for the nine month period ended September 30, 2013 and 2012 (unaudited), respectively.

Future minimum payments under noncancelable leases are approximately as follows:

| | |
|---|---|
| Years ending December 31: | |
| 2013 | $ 446,000 |
| 2014 | 464,000 |
| | $ 910,000 |

As of September 30, 2013 (unaudited), the future minimum payments under noncancelable leases are approximately $111,000 for the three months remaining in the year ending December 31, 2013, and $464,000 for the year ended December 31, 2013.

**General litigation** From time to time, the Company becomes involved in legal proceedings arising from the ordinary course of business. The Company records a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Management is not aware of any matters that will have a material adverse affect on the financial position, results of operations, or cash flows of the Company at September 30, 2013.

**NOTE 13 SALE OF PRODUCT LINE**

On July 1, 2011, the Company sold its Cannula Product line to Sorin Group USA, Inc. (Sorin Group USA) for a gross purchase consideration of $5,000,000, less legal, banking, and other fee expenses of $1,131,000. The Company transferred approximately $418,000 of inventory and $49,000 of equipment to Sorin Group USA and recorded a gain of approximately $3,401,000.

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## NOTE 14 SUBSEQUENT EVENTS (UNAUDITED)

On October 10, 2013 the Company sold substantially all of its assets related to its CABG product line for $17,075,000 in cash, plus $1,000,000 of transitions services to be provided to the acquirer after completion of the sale, of which $500,000 has been collected to date. Assets sold to the acquirer included intellectual property, inventory and equipment. The Company used part of the proceeds from the sale of its CABG assets to pay off the $10,000,000 secured promissory note entered on March 21, 2013.

On December 31, 2013 the Company was acquired in a merger for $34,000,000 in common stock of the acquirer, plus the Company s cash at close after the payment of transaction costs, severance, payments to unaccredited shareholders, and bonus payments. In addition, $3,400,000 of stock and cash was set aside in escrow to be released to the Company s shareholders after fifteen months if there are no claims of the acquirer related to representations and warranties made by the Company under the merger agreement. Further, if certain sales milestones are achieved in 2014 and 2015, up to another $26,000,000 in cash or stock of the acquirer may be distributed to the Company s shareholders.

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# UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information is presented to give effect to the acquisition of Endoscopic Technologies, Inc. ( Estech ) by AtriCure, Inc. and subsidiaries ( AtriCure or the Company ), the Acquisition , as announced on December 19, 2013 and subsequently closed on December 31, 2013.

The unaudited pro forma condensed consolidated financial information was prepared using (i) the audited consolidated financial statements of AtriCure for the year ended December 31, 2012 and the unaudited condensed consolidated financial statements of AtriCure for the nine months ended September 30, 2013 incorporated by reference in this prospectus, (ii) the audited consolidated financial statements of Estech for the fiscal year ended December 31, 2012 and the unaudited consolidated financial statements of Estech for the nine months ended September 30, 2013 included elsewhere in this prospectus (iii) the removal of amounts related to certain operations disposed of by Estech prior to the Acquisition, (iv) the preliminary purchase price allocation of the Estech acquisition, a summary of which is included in Note 2 to this unaudited pro forma condensed consolidated financial information, and (v) the assumptions and adjustments described in the notes accompanying this unaudited pro forma condensed consolidated financial information. The pro forma condensed combined statement of continuing operations reflects the Acquisition as if it had been completed on January 1, 2012, and the pro forma condensed combined balance sheet reflects the Acquisition as if it had been completed on September 30, 2013.

The Estech acquisition was accounted for using the acquisition method of accounting. Under the acquisition method of accounting, the purchase price is required to be allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values. Any purchase price in excess of the fair market value of the acquired tangible and intangible assets is required to be allocated to goodwill in our condensed combined balance sheet as of the end of the period in which the acquisition closed. We performed appraisals necessary to derive preliminary fair values of the tangible and intangible assets acquired and liabilities assumed, the amounts of assets and liabilities arising from contingencies, and the amount of goodwill to be recognized as of the acquisition date, and the related preliminary allocation of the purchase price.

This unaudited pro forma condensed combined financial information should be read in conjunction with the historical consolidated audited and unaudited financial statements of AtriCure and Estech and the related audited and unaudited notes thereto included in or incorporated by reference in this prospectus.

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**AtriCure, Inc. and Subsidiaries and Endoscopic Technologies, Inc.**

**Condensed Combined Balance Sheet and Pro Forma Adjustments**

**As of September 30, 2013**

**(Unaudited)**

(amounts in thousands)

| | Historical | | | | |
|---|---|---|---|---|---|
| | **AtriCure, Inc.** | **Endoscopic Technologies, Inc.** | **Elimination of CABG** | **Pro Forma Adjustments** | **Pro Forma Combined** |
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 25,821 | $ 3,093 | $ 7,075 a) | $ (10,168) b) | $ 25,821 |
| Short-term investments | 3,864 | | | | 3,864 |
| Accounts receivable, less allowance for doubtful accounts | 11,031 | 2,825 | (914) c) | | 12,942 |
| Inventories | 7,062 | 3,162 | (651) d) | (142) e) | 9,431 |
| Other current assets | 779 | 648 | | | 1,427 |
| Total current assets | 48,557 | 9,728 | 5,510 | (10,310) | 53,485 |
| Property and equipment, net | 4,135 | 1,452 | (105) f) | 128 g) | 5,610 |
| Long-term investments | 4,678 | | | | 4,678 |
| Goodwill | | | | 28,470 h) | 28,470 |
| Intangible assets | 23 | 10,868 | (1,146) i) | 341 j) | 10,086 |
| Other assets | 244 | 51 | (51) k) | | 244 |
| Total assets | $ 57,637 | $ 22,099 | $ 4,208 | $ 18,629 | $ 102,573 |
| **Liabilities and Stockholders Equity** | | | | | |
| Current liabilities | | | | | |
| Accounts payable | $ 5,720 | $ 1,609 | $ (256) l) | $ | $ 7,073 |
| Accrued liabilities | 8,518 | 1,664 | | 7,919 m) | 18,101 |
| Current maturities of debt and capital leases | 2,037 | 1,818 | (1,818) n) | | 2,037 |
| Total current liabilities | 16,275 | 5,091 | (2,074) | 7,919 | 27,211 |
| Long-term debt and capital lease obligations | 4,922 | 8,182 | (8,182) n) | | 4,922 |
| Other liabilities | 195 | 94 | (94) o) | | 195 |
| Total liabilities | 21,392 | 13,367 | (10,350) | 7,919 | 32,328 |

| | | | | | |
|---|---|---|---|---|---|
| Stockholders Equity: | | | | | |
| Convertible preferred stock | | 70,667 | | (70,667) p) | |
| Common stock | 21 | 4 | | (4) p) | 21 |
| Additional paid-in capital | 153,420 | 17,338 | | 16,662 p) | 187,420 |
| Accumulated other comprehensive income (loss) | 37 | | | | 37 |
| Accumulated deficit | (117,233) | (79,125) | 14,558 q) | 64,567 p) | (117,233) |
| Notes receivables from Stockholders | | (152) | | 152 p) | |
| Total stockholders equity | 36,245 | 8,732 | 14,558 | 10,710 | 70,245 |
| Total liabilities and stockholders equity | $ 57,637 | $ 22,099 | $ 4,208 | $ 18,629 | $ 102,573 |

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**AtriCure, Inc. and Subsidiaries and Endoscopic Technologies, Inc.**

**Condensed Combined Statement of Continuing Operations and Pro Forma Adjustments**

**For the Nine Months ended September 30, 2013**

**(Unaudited)**

(amounts in thousands, except for share data)

| | Historical | | | | |
|---|---|---|---|---|---|
| | AtriCure, Inc. | Endoscopic Technologies, Inc. | Elimination of CABG | Pro Forma Adjustments | Pro Forma Combined |
| Revenue | $ 60,005 | $ 14,913 | $ (6,348) r) | | $ 68,570 |
| Cost of revenue | 16,111 | 4,038 | (1,164) s) | 592 t) | 19,577 |
| Gross profit | 43,894 | 10,875 | (5,184) | (592) | 48,993 |
| Operating expenses: | | | | | |
| Research and development expenses | 9,792 | 2,395 | | (159) u) | 12,028 |
| Selling, general and administrative expenses | 40,155 | 11,290 | | (429) v) | 51,016 |
| Total operating expenses | 49,947 | 13,685 | | (588) | 63,044 |
| Loss from operations | (6,053) | (2,810) | (5,184) | (4) | (14,051) |
| Other income (expense): | | | | | |
| Interest expense | (428) | (1,592) | 939 w) | 73 x) | (1,008) |
| Interest income | 8 | 94 | | | 102 |
| Other | 5 | (12) | 12 y) | | 5 |
| Loss before income tax expense | (6,468) | (4,320) | (4,233) | 69 | (14,952) |
| Income tax expense | 14 | | | | 14 |
| Net income (loss) | $ (6,482) | $ (4,320) | $ (4,233) | 69 | $ (14,966) |
| Basic and diluted net loss per share | $ (0.32) | | | | $ (0.67) |
| Weighted average shares outstanding-basic and diluted | 20,311 | | | 2,126 z) | 22,437 |

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**AtriCure, Inc. and Subsidiaries and Endoscopic Technologies, Inc.**

**Condensed Combined Statement of Continuing Operations and Pro Forma Adjustments**

**For the Year ended December 31, 2012**

**(Unaudited)**

(amounts in thousands, except for share data)

| | Historical AtriCure, Inc. | Historical Endoscopic Technologies, Inc. | Elimination of CABG | Pro Forma Adjustments | Pro Forma Combined |
|---|---|---|---|---|---|
| Revenue | $ 70,247 | $ 19,629 | $ (7,922) aa) | | $ 81,954 |
| Cost of Revenue | 20,233 | 5,509 | (1,445) bb) | 677 cc) | 24,974 |
| Gross profit | 50,014 | 14,120 | (6,477) | (677) | 56,980 |
| Operating expenses: | | | | | |
| Research and development expenses | 12,147 | 3,137 | | (246) dd) | 15,038 |
| Selling, general and administrative expenses | 45,065 | 16,016 | | (405) ee) | 60,676 |
| Total operating expenses | 57,212 | 19,153 | | (651) | 75,714 |
| Loss from operations | (7,198) | (5,033) | (6,477) | (26) | (18,734) |
| Other income (expense): | | | | | |
| Interest expense | (802) | (1,002) | 816 ff) | | (988) |
| Interest Income | 11 | 225 | | | 236 |
| Other | 505 | (2,992) | 2,992 gg) | | 505 |
| Loss before income tax expense | (7,484) | (8,802) | (2,669) | (26) | (18,981) |
| Income tax expense | 50 | | | | 50 |
| Net loss | $ (7,534) | $ (8,802) | $ (2,669) | $ (26) | $ (19,031) |
| Basic and diluted net loss per share | $ (0.47) | | | | $ (1.04) |
| Weighted average shares outstanding-basic and diluted | 16,190 | | | 2,126 hh) | 18,316 |

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**AtriCure, Inc. and Endoscopic Technologies, Inc..**

**Notes to Unaudited Pro Forma Condensed Combined Financial Information**

**Note 1. Basis of Presentation**

The historical financial information has been adjusted to give pro forma effect to events that are (i) directly attributable to the Acquisition and related transactions, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statements of continuing operations, expected to have a continuing impact on the combined results. The pro forma adjustments are preliminary and based on estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the Acquisition and certain other adjustments. The final determination of the purchase price allocation will be based on the fair values of assets acquired and liabilities assumed as of the date the Acquisition closes, and could result in significant changes to the unaudited pro forma condensed combined financial information, including goodwill.

This unaudited pro forma condensed consolidated financial information should be read in conjunction with the historical consolidated audited and unaudited financial statements of AtriCure, Inc. and Estech and the related audited and unaudited notes thereto included elsewhere in this prospectus.

**Note 2. Estech Acquisition**

On December 31, 2013, AtriCure completed its acquisition of Estech, pursuant to the Merger Agreement, dated as of December 19, 2013, with Niners Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of AtriCure ( Merger Sub ), Estech and Fortis Advisors LLC, a Delaware limited liability company. Under the terms of the Merger Agreement, Estech merged with and into Merger Sub and Merger Sub survived as a wholly owned subsidiary of AtriCure (the Merger ).

The aggregate consideration paid to Estech s former stockholders in the Merger was $34 million paid through the issuance of 2,126,343 shares of AtriCure common stock valued at $15.99 under the terms of the Merger Agreement and up to $26 million to be paid in additional consideration based on the achievement of certain performance based milestones. The purchase price is subject to adjustments based on Estech s working capital and certain expenses incurred by Estech in connection with the consummation of the transactions contemplated by the Merger Agreement (the Closing Merger Consideration ). All outstanding Estech equity awards were cancelled as of closing date of Merger, the preliminary estimated purchase price of the acquisition is as follows:

| | |
|---|---|
| Fair Value of shares issued | $ 34,000 |
| Preliminary Fair Value of Contingent Consideration | 7,508 |
| Total Purchase Price | $ 41,508 |

**Preliminary Purchase Price Allocation**

Pursuant to the Company s business combinations accounting policy, the total preliminary purchase price for Estech was allocated to the preliminary net tangible and intangible assets based upon their preliminary fair values as set forth below. The excess of the preliminary purchase price over the preliminary net tangible assets and preliminary intangible assets was recorded as goodwill.

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The Company s preliminary purchase price allocation for Estech is as follows:

| | |
|---|---|
| Fair Value of Acquired Working Capital | $ 1,500 |
| Recognize long-term assets at fair value | |
| Property and Equipment | 1,475 |
| Identified Intangible Assets | |
| Fusion Technology (15 year life) | 9,100 |
| Clamp and Probe Technology (10 year life) | 755 |
| Trade Name (1 year life) | 208 |
| Goodwill | 28,470 |
| Total Purchase Price | $ 41,508 |

The preliminary purchase price allocation is based on preliminary estimates and assumptions, and is subject to change during the purchase price measurement period as the Company finalizes its estimates of the fair value of assets acquired and liabilities assumed as of the Acquisition date.

**Note 3. Notes to Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2013**

The unaudited pro forma condensed combined balance sheet presented above reflects the following specific adjustments:

| | |
|---|---|
| a) Cash *Elimination of CABG* | |
| To reflect the cash proceeds from the sale of a product line sold by Estech before the acquisition of Estech by AtriCure | $ 17,075 |
| To reflect cash used to settle secured promissory note before the acquisition of Estech by AtriCure | (10,000) |
| Total adjustments to cash | $ 7,075 |
| b) Cash *Proforma Adjustments* | |
| To reflect Estech cash not transferred as detailed in the merger agreement | $ (10,168) |
| c) Accounts receivable, less allowance for doubtful accounts *Elimination of CABG* | |
| To reflect net accounts receivable related to a product line sold by Estech before the acquisition of Estech by AtriCure | $ (914) |
| d) Inventory *Elimination of CABG* | |
| To reflect inventory of a product line sold by Estech before the acquisition of Estech by AtriCure | $ (651) |
| e) Inventory *Pro Forma Adjustments* | $ (142) |

| | | |
|---|---|---|
| To reflect a policy difference to reduce Estech product inventory issued to sales representatives as AtriCure expenses this type of inventory when issued | | |

(Note: No adjustment to fair value of inventory is reflected as inventory as stated approximates fair value due to its estimated cost to sell and normal profit margin.)

f) Property and equipment, net *Elimination of CABG*

| | | |
|---|---|---|
| To reflect net book value of equipment of a product line sold by Estech before the acquisition of Estech by AtriCure | $ | (105) |

g) Property and equipment, net *Pro Forma Adjustments*

| | | |
|---|---|---|
| To reverse net book value of existing property and equipment | $ | (1,347) |
| To record fair value of acquired property and equipment | | 1,475 |
| Total adjustments to property and equipment, net | $ | 128 |

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| | |
|---|---|
| h) Goodwill *Pro Forma Adjustments* | |
| To adjust for purchase consideration in excess of fair value of net assets acquired as of December 31, 2013 valuation date | $ 28,470 |
| i) Intangible assets *Elimination of CABG* | |
| To reflect net book value of intangible assets such as patents and licenses related to a product line sold by Estech before the acquisition of Estech by AtriCure | $ (1,146) |
| j) Intangible assets *Pro Forma Adjustments* | |
| To reverse net book value of existing Estech intangible assets | $ (9,722) |
| To record fair value of acquired intangible assets such as acquired technology and trade name | 10,063 |
| Total adjustments to intangible assets | $ 341 |
| k) Other assets *Elimination of CABG* | |
| To reflect deferred financing fees written off related to secured promissory note paid off before the acquisition of Estech by AtriCure | $ (51) |
| l) Accounts payable *Elimination of CABG* | |
| To reflect accounts payable related to a product line sold by Estech before the acquisition of Estech by AtriCure | $ (256) |
| m) Accrued liabilities *Pro Forma Adjustments* | |
| To reflect fair value of contingent consideration related to the earn-out provisions in the merger agreement between Estech and AtriCure | $ 7,508 |
| To reflect assumed obligations to seller based on excess closing working capital over $1,500 as detailed in the merger agreement | 411 |
| Total adjustments to accrued liabilities | $ 7,919 |
| n) Debt and capital leases *Elimination of CABG* | |
| Current maturities of debt and capital leases | |
| To reflect settlement of secured promissory note by Estech before the acquisition of Estech by AtriCure-current portion | $ (1,818) |
| Long-term debt and capital lease obligations | |
| To reflect settlement of secured promissory note by Estech before the acquisition of Estech by AtriCure long-term portion | $ (8,182) |
| o) Other Liabilities *Elimination of CABG* | $ (94) |

To reflect settlement of Estech warrant liability associated with settled secured promissory note prior to closing of acquisition of Estech by AtriCure

p) Stockholders Equity *Proforma Adjustments*

| | |
|---|---|
| Convertible preferred stock | |
| To reverse Series D-1 convertible preferred stock of Estech | $ (12,012) |
| To reverse Series C-1 convertible preferred stock of Estech | (8,354) |
| To reverse Series B-1 convertible preferred stock of Estech | (10,347) |
| To reverse Series A-1 convertible preferred stock of Estech | (39,954) |
| Total adjustments to Convertible preferred stock | $ (70,667) |
| Common stock | |
| To reverse common stock of Estech | $ (4) |
| To record $.001 per share par value of 2.1 million common shares of AtriCure issued to Estech shareholders as merger consideration | 0 |
| Total adjustments to Common stock | $ (4) |

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| | |
|---|---|
| Additional paid-in capital | |
| To reverse additional paid-in capital of Estech | $ (17,338) |
| To record additional paid-in capital related to issuance of common shares of AtriCure issued to Estech shareholders as merger consideration (2.1 million shares of AtriCure stock x $15.99 price per share per the merger agreement) | 34,000 |
| Total adjustments to property and equipment, net | $ 16,662 |
| Accumulated deficit | |
| To reverse accumulated deficit of Estech | $ (64,567) |
| Notes receivables from stockholders | |
| To reverse notes receivables from stockholders of Estech | $ 152 |
| q) Accumulated deficit *Elimination of CABG* | |
| To reflect gain on sale of product line sold by Estech before the acquisition of Estech by AtriCure | $ 14,558 |

**Note 4. Notes to Unaudited Pro Forma Condensed Combined Statement of Continuing Operations for the nine months ended September 30, 2013**

The unaudited pro forma condensed statement of continuing operations presented above reflects the following specific adjustments:

| | |
|---|---|
| r) Revenue *Elimination of CABG* | |
| To reflect elimination of revenue related to a product line sold by Estech before the acquisition of Estech by AtriCure | $ (6,348) |
| s) Cost of revenue *Elimination of CABG* | |
| To reflect elimination of cost of revenue related to a product line sold by Estech before the acquisition of Estech by AtriCure | $ (1,164) |
| t) Cost of revenue *Pro Forma Adjustments* | |
| Reclassification of certain excise taxes to cost of revenue from interest expense to conform with AtriCure presentation | $ 73 |
| Reclassification of personnel expenses to cost of revenue from selling, general and administrative expenses to conform with AtriCure presentation | 293 |
| Reclassification of personnel expenses to cost of revenue from research and development expense to conform with AtriCure presentation | 165 |
| Reclassification of laboratory and warehousing facilities cost allocation to cost of revenue from selling, general and administrative expenses to conform with AtriCure presentation | 61 |

| | | |
|---|---|---|
| Totaladjustments to Cost of revenue | $ | 592 |

u) Research and development expenses *Pro Forma Adjustments*

| | | |
|---|---|---|
| Reclassification of legal expenses related to patents from research and development expenses to selling, general and administrative expenses to conform with AtriCure presentation | $ | (104) |
| Reclassification of personnel expenses to cost of revenue from research and development expenses to conform with AtriCure presentation | | (165) |
| Reclassification of laboratory and warehousing facilities cost allocation to research and development from selling, general and administrative expenses to conform with AtriCure presentation | | 110 |
| Total adjustments to Research and development expenses | $ | (159) |

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| v) Selling, general and administrative expenses *Pro Forma Adjustments* | |
|---|---|
| To reflect a policy difference to reduce Estech product inventory issued to sales representatives as AtriCure expenses this type of inventory when issued | $ 142 |
| Reclassification of legal expenses related to patents from research and development expenses to selling, general and administrative expenses to conform with AtriCure presentation | 104 |
| Reclassification of personnel expenses to cost of revenue from selling, general and administrative expenses to conform with AtriCure presentation | (293) |
| Reclassification of laboratory and warehousing facilities cost allocation to cost of revenue from selling, general and administrative expenses to conform with AtriCure presentation | (61) |
| Reclassification of laboratory and warehousing facilities cost allocation to research and development from selling, general and administrative expenses to conform with AtriCure presentation | (110) |
| To reverse amortization expense for existing Estech intangible assets | (722) |
| To record amortization expense for newly identified Estech intangible assets | 511 |
| Total adjustments to Selling, general and administrative expenses | $ (429) |

| w) Interest expense *Elimination of CABG* | |
|---|---|
| To eliminate interest expense for secured promissory note settled by Estech before the acquisition of Estech by AtriCure | $ 939 |

| x) Interest expense *Pro Forma Adjustments* | |
|---|---|
| Reclassification of certain excise taxes to cost of revenue from interest expense to conform with AtriCure presentation | $ 73 |

| y) Other *Elimination of CABG* | |
|---|---|
| To eliminate beneficial conversion feature and cost of warrants related to secured promissory note settled by Estech before the acquisition of Estech by AtriCure | $ 12 |

| z) Weighted average shares outstanding-Basic and diluted *Pro Forma Adjustments* | |
|---|---|
| AtriCure shares to be issued in replacement of Estech common shares | 2,126 |

**Note 5. Notes to Unaudited Pro Forma Condensed Combined Statement of Continuing Operations for the year ended December 31, 2012**

The unaudited pro forma condensed statement of continuing operations above reflects the following specific adjustments:

| aa) Revenue *Elimination of CABG* | |
|---|---|
| To reflect elimination of revenue related to a product line sold by Estech before the acquisition of Estech by AtriCure | $ (7,922) |

bb) Cost of revenue *Elimination of CABG*

| | |
|---|---|
| To reflect elimination of cost of revenue related to a product line sold by Estech before the acquisition of Estech by AtriCure | $ (1,445) |

cc) Cost of revenue *Pro Forma Adjustments*

| | |
|---|---|
| Reclassification of personnel expenses to cost of revenue from selling, general and administrative expenses to conform with AtriCure presentation | $ 399 |

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| | |
|---|---|
| Reclassification of personnel expenses to cost of revenue from research and development expense to conform with AtriCure presentation | 204 |
| Reclassification of laboratory and warehousing facilities cost allocation to cost of revenue from selling, general and administrative expenses to conform with AtriCure presentation | 74 |
| Total adjustments to Cost of revenue | $ 677 |

dd) Research and development expenses *Pro Forma Adjustments*

| | |
|---|---|
| Reclassification of legal expenses related to patents from research and development expenses to selling, general and administrative expenses to conform with AtriCure presentation | $ (175) |
| Reclassification of personnel expenses to cost of revenue from research and development expenses to conform with AtriCure presentation | (204) |
| Reclassification of laboratory and warehousing facilities cost allocation to research and development from selling, general and administrative expenses to conform with AtriCure presentation | 133 |
| Total adjustments to Research and development expenses | $ (246) |

ee) Selling, general and administrative expenses *Pro Forma Adjustments*

| | |
|---|---|
| To reflect a policy difference to reduce Estech product inventory issued to sales representatives as AtriCure expenses this type of inventory when issued | $ 101 |
| Reclassification of legal expenses related to patents from research and development expenses to selling, general and administrative expenses to conform with AtriCure presentation | 175 |
| Reclassification of personnel expenses to cost of revenue from selling, general and administrative expenses to conform with AtriCure presentation | (399) |
| Reclassification of laboratory and warehousing facilities cost allocation to cost of revenue from selling, general and administrative expenses to conform with AtriCure presentation | (74) |
| Reclassification of laboratory and warehousing facilities cost allocation to research and development from selling, general and administrative expenses to conform with AtriCure presentation | (133) |
| To reverse amortization expense for existing Estech intangible assets | (964) |
| To record amortization expense for newly identified Estech intangible assets | 889 |
| Total adjustments to Selling, general and administrative expenses | $ (405) |

ff) Interest expense *Elimination of CABG*

| | |
|---|---|
| To eliminate interest expense related to secured promissory note settled by Estech before the acquisition of Estech by AtriCure | $ 816 |

gg) Other

| | |
|---|---|
| To eliminate beneficial conversion feature and cost of warrants related to secured promissory note settled by Estech before the acquisition of Estech by AtriCure | $ 2,992 |

hh) Weighted average shares outstanding-Basic and diluted *Pro Forma Adjustments*

| | |
|---|---|
| AtriCure shares to be issued in replacement of Estech common shares | 2,126 |

**Note 6. Pro Forma Net Loss per Common Share**

The pro forma basic and diluted net loss per common share is based on the weighted average number of common shares of AtriCure s common stock outstanding during the period as adjusted to reflect the shares of common stock issued as consideration in the Estech acquisition. The diluted weighted average number of common shares does not include outstanding stock options as their inclusion would be anti-dilutive.

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# Shares

# AtriCure, Inc.

# Common Stock

## PROSPECTUS SUPPLEMENT

## Piper Jaffray

*Sole Book-Running Manager*

**Canaccord Genuity** **Leerink** **Stifel**

**Barrington Research**

**February , 2014**