

AtriCure, Inc.  
Form DEF 14A  
April 23, 2008

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

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §14a-11(c) or Rule 14a-12

**AtriCure, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Title of each class of securities to which transaction applies:

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**ATRICURE, INC.**  
**NOTICE OF 2008 ANNUAL MEETING**  
**OF STOCKHOLDERS**  
**TO BE HELD ON MAY 28, 2008**

*To Our Stockholders:*

You are cordially invited to attend the 2008 Annual Meeting of Stockholders (the Annual Meeting ) of AtriCure, Inc. (the Company or AtriCure ). The Annual Meeting will be held at our principal executive offices located at 6033 Schumacher Park Drive, West Chester, Ohio 45069 on Wednesday, May 28, 2008, for the following purposes, as more fully described in the accompanying proxy statement:

1. To elect eight directors to serve for a one-year term that expires at the 2009 Annual Meeting of Stockholders and until their successors have been duly elected and qualified;
2. To approve the 2008 Employee Stock Purchase Plan;
3. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008; and
4. To transact such other business as may properly come before the Annual Meeting.

The Annual Meeting will begin promptly at 9:30 a.m. (EDT) and check-in will begin at 9:00 a.m. (EDT). Only holders of record of shares of AtriCure common stock (Nasdaq: ATRC) at the close of business on April 1, 2008, will be entitled to notice of, and to vote at, the Annual Meeting and any postponements or adjournments of the Annual Meeting.

A complete list of stockholders entitled to vote at the Annual Meeting will be available for examination by any stockholder for any purpose in connection with the Annual Meeting during normal business hours at our principal executive offices for a period of at least 10 days prior to the Annual Meeting.

By Order of the Board of Directors,

/s/ Julie A. Piton  
Julie A. Piton

*Vice President, Finance and Administration and Chief  
Financial Officer*

West Chester, Ohio

April 23, 2008

**YOUR VOTE IS IMPORTANT!**

**REGARDLESS OF WHETHER YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE PROMPTLY COMPLETE, SIGN, DATE, AND RETURN THE ENCLOSED PROXY CARD IN THE ACCOMPANYING POSTAGE-PAID ENVELOPE, WHICH REQUIRES NO ADDITIONAL POSTAGE IF IT IS MAILED IN THE UNITED STATES. EVEN IF YOU HAVE VOTED BY**

**PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE ANNUAL MEETING. YOU MAY REVOKE YOUR PROXY AT ANY TIME BEFORE IT IS VOTED AT THE ANNUAL MEETING.**

**ATRICURE, INC.**

**PROXY STATEMENT**

**FOR**

**2008 ANNUAL MEETING OF STOCKHOLDERS**

The Board of Directors of AtriCure, Inc., a Delaware corporation, is soliciting the enclosed proxy from you. The proxy will be used at our 2008 Annual Meeting of Stockholders to be held on Wednesday, May 28, 2008, beginning at 9:30 a.m. (EDT) at our principal executive offices located at 6033 Schumacher Park Drive, West Chester, Ohio 45069, and at any postponements or adjournments thereof. This proxy statement contains important information regarding the 2008 Annual Meeting of Stockholders. Specifically, it identifies the matters upon which you are being asked to vote, provides information that you may find useful in determining how to vote and describes the voting procedures.

In this proxy statement: the terms *we*, *our*, *us*, *AtriCure* and the *Company* each refer to AtriCure, Inc.; the term *Board* means our Board of Directors; the term *proxy materials* means this proxy statement, the enclosed proxy card, and our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the U.S. Securities and Exchange Commission on March 17, 2008; and the term *meeting* means our 2008 Annual Meeting of Stockholders.

We are sending these proxy materials on or about April 23, 2008, to all stockholders of record at the close of business on April 1, 2008 (the *Record Date* ).

**QUESTIONS AND ANSWERS REGARDING THIS SOLICITATION**

**AND VOTING AT THE ANNUAL MEETING**

***Why am I receiving these proxy materials?***

We sent you these proxy materials because our Board is soliciting your proxy to vote at the meeting. As a stockholder of record at the close of business on the Record Date, you are invited to attend the meeting and are entitled to and requested to vote on the items of business described in this proxy statement.

***What information is contained in this proxy statement?***

The information in this proxy statement relates to the proposals to be voted on at the meeting, the voting process, the compensation of our directors and most highly paid executive officers in 2007 and certain other required information.

***Who is entitled to vote at the meeting?***

Only stockholders who owned our common stock at the close of business on the Record Date are entitled to notice of and to vote at the meeting, and at any postponements or adjournments thereof. If you are not a stockholder of record but hold shares in street name (that is, through a broker or nominee), you will need to provide proof of beneficial ownership as of the Record Date, such as your most recent brokerage account statement, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership. All stockholders should be prepared to present photo identification for admittance.

***What items of business will be voted on at the meeting?***

The items of business scheduled to be voted on at the meeting are:

1. the election of eight nominees to serve as directors on our Board;
2. the approval of the 2008 Employee Stock Purchase Plan; and
3. the ratification of the appointment of our independent registered public accounting firm for the 2008 fiscal year.

These proposals are described more fully below. As of the date of this proxy statement, this is the only business that our Board intends to present or knows of that others will present at the meeting. If any other matter or matters are properly brought before the meeting, it is the intention of the persons holding proxies to vote the shares they represent in accordance with their best judgment.

***How does the Board of Directors recommend that I vote?***

Our Board recommends that you vote your shares

- (1) FOR each of the director nominees;
- (2) FOR the approval of the 2008 Employee Stock Purchase Plan; and
- (3) FOR the ratification of our independent registered public accounting firm for the 2008 fiscal year.

***What are my voting rights?***

On each matter to be voted upon, you have one vote for each share of common stock you own as of the Record Date. You may vote all shares owned by you as of the Record Date, including (1) shares held directly in your name as the *stockholder of record*, and (2) shares held for you as the *beneficial owner* through a broker, trustee or other nominee such as a bank. In the aggregate, there are a maximum of 14,175,229 votes that may be cast at the meeting.

***What constitutes a quorum?***

A quorum is required to conduct business at the meeting. The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of our common stock entitled to vote at the meeting will constitute a quorum. As of the Record Date, 14,175,229 shares of our common stock were outstanding. Accordingly, the presence of the holders of our common stock representing at least 7,087,615 votes is required to establish a quorum at the meeting. Both abstentions and broker non-votes are counted for the purpose of determining the presence of a quorum.

***What is the difference between holding shares as a stockholder of record and as a beneficial owner?***

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the *stockholder of record*, and these proxy materials are being sent directly to you by us. As the *stockholder of record*, you have the right to grant your voting proxy directly to the persons named as proxy holders or to vote in person at the meeting. We have enclosed a proxy card for your use.

If your shares are held in a brokerage account or by another nominee, you are considered the *beneficial owner* of shares held in *street name*, and these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote and are also invited to attend the meeting. Please note that since a beneficial owner is not the *stockholder of*

*record*, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, trustee or nominee that holds your shares, which gives you the right to vote the shares at the meeting. Your broker, trustee or nominee has enclosed or provided voting instructions for your use in directing the broker, trustee or nominee how to vote your shares.

***How can I vote my shares in person at the meeting?***

Shares held in your name as the stockholder of record may be voted in person at the meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from the broker, trustee or nominee that holds your shares, which gives you the right to vote the shares. Even if you plan to attend the meeting, we recommend that you also submit your proxy card or voting instructions as described below so that your vote will be counted if you later decide not to, or are unable to, attend the meeting.

***Can I vote my shares without attending the meeting?***

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. Stockholders of record may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-addressed envelope. Stockholders holding shares beneficially in street name may vote by mail by completing, signing and dating the voting instruction cards provided by their broker, trustee or nominee and mailing them in the accompanying pre-addressed envelope.

***What if I want to change my vote?***

You may change your vote at any time prior to the vote at the meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to our Secretary prior to your shares being voted or by attending the meeting and voting in person. Please note that attending the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker, trustee or nominee, which gives you the right to vote your shares, by attending the meeting and voting in person.

***What vote is required to approve each item and how are votes counted?***

The vote required to approve each item of business and the method for counting votes is set forth below:

**Election of Directors.** The eight director nominees receiving the highest number of affirmative FOR votes at the meeting (a plurality of votes cast) will be elected to serve as directors. You may vote FOR all of the director nominees or WITHHOLD your vote for any or all director nominees. A properly executed proxy marked WITHHOLD with respect to the election of one or more director nominees will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

**Approval of the 2008 Employee Stock Purchase Plan.** For the approval of the 2008 Employee Stock Purchase Plan, the affirmative FOR vote of a majority of the shares represented in person or by proxy and entitled to vote on this item will be required for approval. You may vote FOR, AGAINST or ABSTAIN for this item of business. If you ABSTAIN, your abstention has the same effect as a vote AGAINST.

**Ratification of Independent Registered Public Accounting Firm.** For the ratification of the appointment of our independent registered public accounting firm, the affirmative FOR vote of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. You may vote FOR, AGAINST or ABSTAIN for this item of business. If you ABSTAIN, your abstention has the same effect as a vote AGAINST.



If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If you sign your proxy card or voting instruction card without giving specific instructions, your shares will be voted in accordance with the recommendations of the Board ( FOR all of the nominees to the Board, FOR approval of the 2008 Employee Stock Purchase Plan and FOR ratification of the independent registered public accounting firm, and in the discretion of the proxy holders on any other matters that properly come before the meeting).

***What is a broker non-vote ?***

Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients, who are the beneficial owners of the shares, brokers have the discretion to vote such shares on routine matters. The election of directors and the ratification of the appointment of an independent registered public accounting firm are considered routine matters. Therefore, if you do not otherwise instruct your broker, the broker may turn in a proxy card voting your shares FOR all of AtriCure's nominees to the Board and FOR ratification of the independent registered public accounting firm. A broker non-vote occurs when a broker expressly instructs on a proxy card that it is not voting on a matter, whether routine or non-routine. The approval of an employee stock purchase plan is not considered a routine matter and, therefore, the broker may not vote these shares on your behalf without your instruction.

***How are broker non-votes counted?***

Broker non-votes will be counted for the purpose of determining the presence of a quorum for the transaction of business, but they will not be counted in tabulating the voting result for any particular proposal.

***How are abstentions counted?***

If you return a proxy card that indicates an abstention from voting, the shares represented will be counted for the purpose of determining both the presence of a quorum and the total number of votes cast with respect to a proposal (other than votes cast with respect to the election of directors), but they will not be voted on any matter at the meeting. In the absence of controlling precedent to the contrary, we intend to treat abstentions in this manner. Accordingly, abstentions will have the same effect as a vote AGAINST a proposal.

***What happens if additional matters are presented at the meeting?***

Other than the three proposals described in this proxy statement, we are not aware of any other business to be acted upon at the meeting. If you grant a proxy, the persons named as proxy holders, Julie A. Piton (our Vice President, Finance and Administration and Chief Financial Officer) and David J. Drachman (our President and Chief Executive Officer), will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If, for any unforeseen reason, any of our nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by our Board.

***Who will serve as inspector of election?***

We expect the Secretary of the Company to tabulate the votes and act as inspector of election at the meeting.

***What should I do in the event that I receive more than one set of proxy/voting materials?***

You may receive more than one set of these proxy solicitation materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For instance, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. In addition, if you are a stockholder of record and your shares are registered in more than one name, you may receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive to ensure that all your shares are voted.

*Who is soliciting my vote and who will bear the costs of this solicitation?*

Your vote is being solicited on behalf of the Board, and the Company will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, by e-mail or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners. We may also engage the services of a professional proxy solicitation firm to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners. Our costs for such services, if retained, will not be material.

*Where can I find the voting results of the meeting?*

We intend to announce preliminary voting results at the meeting and publish final results in our quarterly report on Form 10-Q for the second quarter of fiscal 2008.

*What is the deadline to propose actions for consideration at next year's meeting of stockholders or to nominate individuals to serve as directors?*

As a stockholder, you may be entitled to present proposals for action at a future meeting of stockholders, including director nominations.

**Stockholder Proposals:** For a stockholder proposal to be considered for inclusion in our proxy statement for the annual meeting to be held in 2009 (the 2009 Annual Meeting), the written proposal must be received by the Secretary of AtriCure at our principal executive offices no earlier than November 24, 2008 and no later than December 24, 2008. However, if our 2009 Annual Meeting is not held between April 28, 2009 and June 27, 2009, then your notice must be received not later than the close of business on the later of (i) the 150<sup>th</sup> day prior to the date of the 2009 Annual Meeting or (ii) the 10<sup>th</sup> day following the date we make a public announcement of the date of the 2009 Annual Meeting. Such proposals must provide the information required by our Bylaws and also must comply with the requirements of Regulation 14A of the Securities Exchange Act of 1934, as amended, and any other applicable rules established by the U.S. Securities and Exchange Commission. Proposals should be addressed to:

AtriCure, Inc.

Attn: Secretary

6033 Schumacher Park Drive

West Chester, Ohio 45069

**Nomination of Director Candidates:** You may propose director candidates for consideration by our Board. Any such recommendations should include the nominee's name and qualifications for Board membership and should be directed to our Secretary at the address of our principal executive offices set forth above. In addition, our Bylaws permit stockholders to nominate directors for election at an annual meeting of stockholders. To nominate a director, the stockholder must provide the information required by our Bylaws, as well as a statement by the nominee consenting to being named as a nominee and to serve as a director if elected. In addition, the stockholder must give timely notice to our Secretary in accordance with the provisions of our Bylaws, which require that the notice be received by our Secretary no earlier than November 24, 2008 and no later than December 24, 2008.

**Copy of Bylaw Provisions:** You may contact our Secretary at our principal executive offices for a copy of the relevant Bylaws provisions regarding the requirements for making stockholder proposals and nominating director candidates.

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**PROPOSAL ONE ELECTION OF DIRECTORS**

**The Board of Directors**

Our Amended and Restated Certificate of Incorporation provides that each director shall be elected at each annual meeting of stockholders for a term of one year. Our Board currently consists of the following nine directors: Mark A. Collar, David J. Drachman, Donald C. Harrison, M.D., Michael D. Hooven, Richard M. Johnston, Elizabeth D. Krell, Ph.D., Mark R. Lanning, Karen P. Robards and Lee R. Wrubel, M.D., whose terms expire at this Annual Meeting.

**Director Nominees**

The Nominating and Corporate Governance Committee recommended and the Board nominated the following people for election as directors: Mark A. Collar, David J. Drachman, Donald C. Harrison, M.D., Michael D. Hooven, Elizabeth D. Krell, Ph.D., Richard M. Johnston, Mark R. Lanning, and Karen P. Robards. Lee R. Wrubel, M.D. is not standing for re-election.

If elected, Mark A. Collar, David J. Drachman, Donald C. Harrison, M.D., Michael D. Hooven, Elizabeth D. Krell, Ph.D., Richard M. Johnston, Mark R. Lanning, and Karen P. Robards will hold office as directors until our Annual Meeting of Stockholders to be held in 2009, and until their respective successors are elected and qualified or until their earlier death, resignation or removal.

**Biographical Information of Directors and Director Nominees**

The names of each member of the Board and nominee for director, where indicated, their ages as of the Record Date, length of service on the Board and certain biographical information is as follows:

*Mark A. Collar, Nominee.* Mr. Collar, 55, has served as one of our directors since February 2008. Mr. Collar retired in 2008 as an executive of the Procter and Gamble Company, where his roles included President of the Global Pharmaceuticals and Personal Health business. Mr. Collar joined Procter and Gamble in 1975 as a sales representative and assumed roles of progressive responsibility within their Health and Personal Care, Beauty Care, New Business Development and Personal Health Care products divisions. Mr. Collar joined Procter and Gamble's Pharmaceuticals division in 1994 and was named President of Global Pharmaceuticals in 2002. Mr. Collar is currently the Chairman of the Third Frontier Advisory Board, which provides direction for Ohio's 10-year \$1.6 billion investment in high tech research, innovation, and company formation. He is also Vice Chairman and a Member of the Executive Committee for BioOhio, Inc., a non-profit organization which promotes the acceleration and growth of life science companies in Ohio. Further, Mr. Collar is a Trustee and Member of the Executive Committee for Health Alliance, a leading hospital group serving the greater Cincinnati area. Mr. Collar received his B.S. from Northern Illinois University.

*David J. Drachman, Nominee.* Mr. Drachman, 49, has served as President, Chief Executive Officer and a director since October 2002. From 2000 to 2002, Mr. Drachman served as President of Impulse Dynamics N.V., a development stage medical device company focusing on implantable electrical solutions for the treatment of heart failure, diabetes and eating disorders. From 1997 to 1999, Mr. Drachman served in a variety of positions, including Vice President of Strategic Development at Biosense Webster, Inc., a Johnson & Johnson, Inc. subsidiary that designs and manufactures diagnostic and therapeutic cardiac catheters. In addition, Mr. Drachman has also served in a variety of positions at Ventritex, Inc. and Boston Scientific Corporation. Mr. Drachman received his B.A. from the University of Louisville and holds North American Society of Pacing and Electrophysiology certification in Electrophysiology, Cardiac Pacing and Defibrillation.

*Donald C. Harrison, M.D., Nominee.* Dr. Harrison, 74, has served as one of our directors since November 2000. Since 2003, Dr. Harrison has served as a general partner of Charter Life Sciences, L.P., a venture capital investment firm. He also serves as a director of several public and private companies, including Kendle

International, a publicly-held clinical research company, UMD, Inc., a privately-held medical device company he founded, EnteroMedics, Inc., a publicly-held developer of medical devices for the treatment of obesity and gastrointestinal disorders and CoRepair, Inc., a heart failure company. From 1986 to 2003, Dr. Harrison served in various capacities at the University of Cincinnati Medical Center, including Chief Executive Officer, Senior Vice President and Provost for Health Affairs. Dr. Harrison has previously served as a director of various publicly-held companies, including EP Technology, Inc., Novoste Corporation, InControl, Inc., and SciMed Inc. From 2000 to 2003, Dr. Harrison served as a director of Enable Medical Corporation, a developer and manufacturer of surgical instruments that AtriCure acquired on August 10, 2005. From 1968 to 1986, Dr. Harrison served as co-director of the Falk Cardiovascular Research Center in Stanford, California, Professor of Medicine and William G. Irwin Professor of Cardiology at Stanford University School of Medicine and Chief of Cardiology at Stanford University Hospital. Dr. Harrison received his B.S. from Birmingham Southern College and his M.D. from the University of Alabama College of Medicine.

*Michael D. Hooven, Nominee.* Mr. Hooven, 52, is one of our founders and has served as a director since August 2002 and as a consultant during 2007. From August 2002 through December 2006, Mr. Hooven served as Chief Technology Officer and from August 2002 through February 2005 he served as Chairman of the Board. From November 2000 to August 2002, he served as our President and Chief Executive Officer. Mr. Hooven is currently President and Chief Executive Officer of Enable Medical Technologies, LLC, a start-up business focusing on opportunities in minimally invasive surgery. Since 1994 until its acquisition, Mr. Hooven served as Chairman of the Board, and has previously served as President and Chief Executive Officer of Enable Medical Corporation, a developer and manufacturer of surgical instruments that Mr. Hooven co-founded and that we acquired on August 10, 2005. Mr. Hooven is also a director of BioOhio, a non-profit organization which promotes the acceleration and growth of life science companies in Ohio. From 1986 to 1994, Mr. Hooven served as Director of New Product Development at Ethicon Endo-Surgery, Inc., a developer and manufacturer of minimally invasive surgical instruments. In addition, Mr. Hooven has also served in a variety of positions at Cordis Corporation and Siemens Medical Solutions of Siemens AG. Mr. Hooven received his B.S. and M.S. from the University of Michigan.

*Richard M. Johnston, Nominee.* Mr. Johnston, 73, has served as one of our directors since June 2002 and as Chairman of the Board since February 2005. Since 2000, Mr. Johnston has been a managing member of Camden Partners Holdings, LLC, a private equity firm. Mr. Johnston currently serves as a director of several of Camden Partners' portfolio companies, including BioMedical Enterprises, Inc., LipoScience Inc., Lombard Medical Technologies PLC, Medivance, Inc., Pharmanetics, Inc., Picis, Inc. and Webmedx, Inc. From 1961 to 2000, Mr. Johnston was employed by The Hillman Company, an investment holding company with diversified operations, where he served from 1970 to 2000 as Vice President, Investments and as a director. From 1979 to 2003, Mr. Johnston was Chairman of the Board of The Western Pennsylvania Hospital and its successors, The Western Pennsylvania Healthcare System and West Penn Allegheny Health System. Mr. Johnston received his B.S. from Washington and Lee University and his M.B.A. from The Wharton School, University of Pennsylvania.

*Elizabeth D. Krell, Ph.D., Nominee.* Dr. Krell, 59, has served as one of our directors since June 2006. Dr. Krell is currently a private consultant on matters pertaining to FDA-regulated products, as well as FDA policies and procedures. From 2003 to 2004, she served as the Executive Vice President for Technology and Regulatory Affairs at the Advanced Medical Technology Association (AdvaMed), the largest trade association for medical device manufacturers. From 1975 to 2001, she served in the FDA, starting as a bench researcher and ending in the FDA's top science job as the Acting Senior Advisor for Science, advising the Commissioner and other top FDA officials on science and science management. Dr. Krell served from 1990 to 2000 as the Deputy Director for Science, in the FDA's Center for Devices and Radiological Health (CDRH). In this job she provided executive leadership in the development of programs to assure the safety and effectiveness of medical devices and diagnostic products, and the reduction of population exposure to radiation emitted from medical, industrial and consumer products. Previously, she directed CDRH's science and engineering labs. Dr. Krell received her B.A. from S.U.N.Y. Binghamton and her Ph.D. from Georgetown University.

*Mark R. Lanning, C.P.A., Nominee.* Mr. Lanning, 53, has served as one of our directors since February 2006. Mr. Lanning currently serves as Vice President, Investor Relations and Treasurer of Hillenbrand, Inc., a leader in the funeral services industry. Prior to joining Hillenbrand in 1988, Mr. Lanning spent twelve years in various accounting positions with Ernst & Whinney (now Ernst & Young). Mr. Lanning, a Certified Public Accountant, also currently serves as Chairman and a member of the Board of Directors of the Indiana CPA Society. Mr. Lanning received his B.S. in Accounting from Ball State University.

*Karen P. Robards, Nominee.* Ms. Robards, 58, has served as one of our directors since November 2000. Since 1987, Ms. Robards has been a partner of Robards & Company, LLC, a financial advisory firm. From 1976 to 1987, Ms. Robards was an investment banker at Morgan Stanley where she headed its healthcare investment banking activities. Ms. Robards served as a director of Enable Medical Corporation, a developer and manufacturer of surgical instruments, from 1996 to 2005, which we acquired on August 10, 2005. Ms. Robards currently serves as a Director and Vice Chair of the Board of over 100 NYSE traded closed end mutual funds managed by BlackRock, Inc. Ms. Robards also serves as a director of Care Investment Trust, a publicly-held real estate investment trust focusing on investment opportunities in the healthcare industry. Ms. Robards is a founder and director of the Cooke Center for Learning & Development, a not-for-profit educational organization in New York City. Ms. Robards received her B.A. from Smith College and her M.B.A. from Harvard Business School.

*Lee R. Wrubel, M.D.* Dr. Wrubel, 43, has served as one of our directors since February 2005. Since 2000, Dr. Wrubel has served as a General Partner of Foundation Medical Partners, LP, a venture capital investment firm. Dr. Wrubel also serves as a director of several privately-held medical device companies, including CardioMEMS, Inc. and EsophyX, Inc. Dr. Wrubel currently serves on the Translational Research Advisory Committee of the Muscular Dystrophy Association. Dr. Wrubel received his B.A. from Lafayette College, his M.D. and M.P.H. from Tufts University School of Medicine and his M.B.A. from Columbia University School of Business. Dr. Wrubel is not standing for re-election.

#### **Board of Directors Recommendation**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR EACH OF THE EIGHT NOMINEES FOR DIRECTOR LISTED ABOVE.**

### **CORPORATE GOVERNANCE AND BOARD MATTERS**

#### **Independence of the Board**

The Nasdaq OMX Group, Inc. ( Nasdaq ) listing standards require that a majority of the members of a listed company s board of directors qualify as independent, as affirmatively determined by the board of directors. Our Board consists of the following nine directors: Richard M. Johnston (Chairman), Mark A. Collar, David J. Drachman, Donald C. Harrison, M.D., Michael D. Hooven, Elizabeth D. Krell, Ph.D., Mark R. Lanning, Karen P. Robards and Lee R. Wrubel, M.D. Our Board has affirmatively determined that each of the directors and nominees other than David J. Drachman, our President and Chief Executive Officer, and Michael D. Hooven, our former Chief Technology Officer and former consultant, are independent directors under the listing standards established by Nasdaq.

As required under the Nasdaq listing standards, our independent directors meet in regularly scheduled executive sessions at which only independent directors are present.

#### **Committees of the Board**

Our Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. From time to time, our Board may also create committees for special purposes. The membership and the function of each of the committees are described below.

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*Audit Committee.* Our Audit Committee currently consists of Mark R. Lanning (Chair of the Committee), Donald C. Harrison, M.D. and Karen P. Robards. Our Audit Committee is responsible for overseeing our financial controls, audit and reporting and reviews with our management and our independent auditors the effectiveness of our internal control over financial reporting and accounting and reporting practices and procedures. In addition, this Committee reviews the qualifications of our independent auditors, is responsible for their appointment, compensation, retention and oversight and reviews the scope, fees and results of activities related to audit and non-audit services. Our Board has determined that each member of the Audit Committee meets the independence and financial literacy requirements of the Nasdaq rules and the independence requirements of the SEC. Our Board has also determined that Karen P. Robards and Mark R. Lanning each qualify as an audit committee financial expert, as defined in SEC rules. The Audit Committee has a written charter, which was adopted by our Board in April 2005. A copy of the charter is available on our website at [www.atricure.com](http://www.atricure.com) under Investor Relations Corporate Governance. The report of the Audit Committee appears beginning on page 24 of this proxy statement.

*Compensation Committee.* Our Compensation Committee currently consists of Karen P. Robards (Chair of the Committee), Lee R. Wrubel, M.D. and Mark R. Lanning. The Compensation Committee's principal responsibilities are to assist the Board in overseeing the Company's management compensation policies and practices, including to determine and approve the compensation of our Chief Executive Officer, review and approve compensation levels for our other executive officers, review and approve management incentive compensation policies and programs, review and approve equity compensation programs for employees and exercise discretion in the administration of those programs, review with management our disclosures under Compensation Discussion and Analysis, or CD&A, and produce an annual report on executive compensation that contains a recommendation with respect to inclusion of the CD&A in our filings with the Securities and Exchange Commission. The Compensation Committee Charter was amended in February 2007 to reflect the Committee's responsibilities relating to the CD&A, as described in the previous sentence. The composition of the Compensation Committee satisfies the independence requirements of Nasdaq. The Compensation Committee has a written charter, which was adopted by our Board in April 2005 and amended in February 2007 and is available on our website at [www.atricure.com](http://www.atricure.com) under Investor Relations Corporate Governance. The report of the Compensation Committee appears on page 26 of this proxy statement.

*Nominating and Corporate Governance Committee.* Our Nominating and Corporate Governance Committee currently consists of Richard M. Johnston (Chair of the Committee), Donald C. Harrison, M.D., Karen P. Robards and Elizabeth D. Krell, Ph.D. The Nominating and Corporate Governance Committee is responsible for reviewing and making recommendations on the composition of our Board and selection of directors, periodically assessing the functioning of our Board and its committees, and making recommendations to our Board regarding corporate governance matters and practices. The composition of the Nominating and Corporate Governance Committee satisfies the independence requirements of Nasdaq. The Nominating and Corporate Governance Committee has a written charter, which was adopted by our Board in April 2005, which is available on our website at [www.atricure.com](http://www.atricure.com) under Investor Relations Corporate Governance.

#### **Meetings of the Board and Committees of the Board**

During 2007, the Board held seven meetings, the Audit Committee held twelve meetings, the Compensation Committee held five meetings and the Nominating and Corporate Governance Committee held four meetings.

Our directors are strongly encouraged to attend the Company's annual meeting of stockholders. All of our directors attended the 2007 Annual Meeting, either in person or via telephone.

#### **Consideration of Director Nominees**

*Stockholder Nominations and Recommendations.* As described above in the Question and Answer section under What is the deadline to propose actions for consideration at next year's meeting of stockholders or to

nominate individuals to serve as directors? , our Bylaws set forth the procedure for the proper submission of stockholder nominations for membership on our Board. In addition, the Nominating and Corporate Governance Committee may consider properly submitted stockholder recommendations (as opposed to formal nominations) for candidates for membership on the Board. A stockholder may make such a recommendation by submitting the following information to our Secretary at 6033 Schumacher Park Drive, West Chester, Ohio 45069: the candidate's name, age, home and business contact information, principal occupation or employment, the class and number of shares of AtriCure stock beneficially owned, information regarding any relationships, arrangements or understandings between the candidate and AtriCure, and any other information relating to the candidate that is required to be disclosed in solicitations of proxies for elections of directors or is otherwise required, including the candidate's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected.

*Director Qualifications.* Members of our Board should have the highest professional and personal ethics and values, and conduct themselves consistent with our Code of Business Conduct and Ethics. Other than an age limit of 75 for election of directors set by our Board, the Nominating and Corporate Governance Committee has not established specific minimum qualifications for director candidates. The Committee believes that candidates and nominees must reflect a Board that is comprised of directors who (i) are predominantly independent, (ii) are of high integrity, (iii) have qualifications that will increase overall Board effectiveness, and (iv) meet other requirements as may be required by applicable rules, such as financial literacy or financial expertise with respect to audit committee members. In February 2007, our Board amended our Corporate Governance Guidelines to raise the director age limit from 72 to 75.

*Identifying and Evaluating Director Nominees.* Typically new candidates for nomination to our Board are suggested by existing directors or by our executive officers. However, candidates may also come to the attention of our Board through professional search firms, stockholders or other persons. The Nominating and Corporate Governance Committee will carefully review the qualifications of any candidates who have been properly brought to its attention. Such review may, in the Committee's discretion, include a review solely of information provided to the Committee or may also include discussions with persons familiar with the candidate, an interview with the candidate or other actions that the Committee deems proper. The Committee will consider the suitability of each candidate, including the current members of our Board, in light of the current size and composition of the Board. In evaluating the qualifications of the candidates, the Committee considers many factors, including, issues of character, judgment, independence, age, expertise, diversity of experience, length of service, other commitments and the like. The Committee evaluates such factors, among others, and does not assign any particular weighting or priority to any of these factors. Candidates properly recommended by stockholders are evaluated by the independent directors using the same criteria as other candidates.

#### **Director Compensation**

We pay an annual retainer to our non-employee directors of \$20,000. We also pay an additional fee of \$25,000 to the Chairman of the Board, \$10,000 to the Chairman of the Audit Committee, and \$5,000 to the Chairperson of the Compensation and Nominating and Governance Committees. Non-employee directors also receive a fee for each Board meeting of \$1,500 for in-person attendance and \$500 for participation by telephone and a fee for each Committee meeting of \$750 for in-person attendance and \$350 for participation by telephone.

Upon joining our Board, each non-employee director receives an initial stock option grant of 50,000 stock options, which vest one-fourth on each anniversary of the date of the grant. Annually, after each annual meeting of stockholders, each of our non-employee directors who has been a director for at least six months receives 10,000 stock options, which vest one-third on the earlier of each anniversary of the date of the grant or the annual meeting of stockholders that year. Options granted to non-employee directors have a term of 10 years and an exercise price equal to the fair market value on the date of grant.

**Director Compensation Table**

The following table summarizes compensation to our non-employee directors for the fiscal year ended December 31, 2007.

Name	Fees Earned or Paid in Cash (\$)	Options Awards(\$) <sup>(1)</sup>	All Other Compensation	Total
Richard M. Johnston	\$ 61,500	\$ 69,189		\$ 130,689
Donald C. Harrison, MD	37,700	71,315		109,015
Michael D. Hooven	28,500	8,372	\$ 144,000 <sup>(2)</sup>	180,872
Elizabeth D. Krell	31,500	78,099		109,599
Mark R. Lanning	48,450	64,724		113,174
Karen P. Robards	44,950	69,189		114,139
Lee R. Wrubel, MD	28,700	69,189		97,889

<sup>(1)</sup> The amounts represent compensation expense recognized pursuant to Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R) during the year ended December 31, 2007 (disregarding the estimate of forfeitures related to service-based vesting conditions). Additional information about the assumptions that we used when valuing equity awards is set forth in our Annual Report on Form 10-K in Notes 1 and 17 of the Notes to Consolidated Financial Statements.

<sup>(2)</sup> Fees pursuant to consulting agreement.

**Corporate Governance Guidelines**

The Board has adopted Corporate Governance Guidelines to promote the effective functioning of the Board and its Committees, to promote the interests of stockholders and to create a common set of expectations as to how the Board, its Committees, individual directors and management should perform their respective functions. The Board believes that ethics and integrity cannot be legislated or mandated by directive or policy and that the ethics, character, integrity and values of our directors and management remain a critical safeguard in quality corporate governance. The Corporate Governance Guidelines establish the practices the Board will follow with respect to, among other practices, board composition and selection of board nominees, director responsibilities, chief executive officer evaluation, management development and succession planning, director compensation, board committees, and annual board and committee performance evaluations. A copy of the Corporate Governance Guidelines is available on our website at [www.atricure.com](http://www.atricure.com) under Investor Relations Corporate Governance.

**Code of Business Conduct and Ethics**

AtriCure is committed to maintaining the highest standards of business conduct and ethics. Our Code of Business Conduct and Ethics (the Code) reflects our values and the business practices and principles of behavior that support this commitment. Our Code is an integral part of our business conduct compliance program and embodies our commitment to conduct operations in accordance with the highest legal and ethical standards. The Code applies to all of our officers, directors and employees and is supplemented by an additional Code of Ethics which is applicable to our Chief Executive Officer and Senior Financial Officers. Each officer, director and employee is responsible for understanding and complying with the Code. Each Code is available on our website at [www.atricure.com](http://www.atricure.com) under Investor Relations Corporate Governance. We will post any amendments to the Codes, as well as any waivers that are required to be disclosed by the rules of the SEC or Nasdaq, on our website.

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee is currently composed of Ms. Robards (Chair), Mr. Lanning and Dr. Wrubel. No member of our Compensation Committee nor any executive officer of AtriCure has a relationship



that would constitute an interlocking relationship with executive officers or directors of another entity. No Compensation Committee member is an officer or employee of AtriCure or was formerly an officer of AtriCure.

#### **Certain Relationships and Related Party Transactions**

We describe below transactions that have occurred this year or during our last three fiscal years to which we were a party in which:

the amounts involved exceeded or will exceed \$120,000; and

a director, nominee for director, executive officer, holder of more than 5% of our common stock or any member of their immediate families had or will have a direct or indirect material interest.

##### *Employment Agreement with David J. Drachman*

On February 9, 2007, we entered into an Employment Agreement with David J. Drachman. Under the terms of the agreement, Mr. Drachman will continue to serve as our President and Chief Executive Officer and, subject to annual stockholder re-election, as a director.

Pursuant to the terms of his agreement with us, Mr. Drachman's base salary for 2007 is \$400,000, which will be reviewed annually for discretionary merit increases by the Board of Directors and/or Compensation Committee. Mr. Drachman is also entitled to receive such annual bonus, if any, as to which he may be entitled under the management incentive program we adopt each year. Pursuant to the terms of the agreement, either we or Mr. Drachman may terminate Mr. Drachman's employment under the agreement at any time for any reason or no reason. If Mr. Drachman voluntarily terminates the agreement, he must give us at least 60 days' prior written notice. If we voluntarily terminate the agreement, we are not obligated to give Mr. Drachman any prior written notice. In the event that we terminate the employment of Mr. Drachman without cause or for total disability, or if he terminates his employment for good reason, each as defined in the agreement, Mr. Drachman is entitled to severance payments totaling six months of his then base salary, which based on his current salary would equal a payment of \$200,000; provided that if we terminate his employment without cause or if he terminates his employment for good reason within 12 months following a change of control (as defined in the agreement), Mr. Drachman is entitled to severance payments totaling 12 months of his then base salary plus an amount equal to his target bonus for the year in which the termination occurred, which severance payment would equal \$560,000 based on his current base salary and target bonus potential for 2008.

Under the terms of the agreement, Mr. Drachman reconfirmed his obligations under his Non-Competition, Proprietary Information and Inventions Agreement, dated October 22, 2002. Additionally, under the terms of the agreement, we will reimburse Mr. Drachman for insurance premiums paid by Mr. Drachman to maintain up to \$5,000,000 of term life insurance for his own benefit, up to a maximum annual reimbursement of \$10,000.

##### *Employment Agreement with Julie A. Piton*

We entered into an Employment Agreement, dated as of January 5, 2007, with Julie A. Piton and we subsequently amended the agreement on April 17, 2007. Under the agreement, Ms. Piton serves as our Vice President of Finance and Administration and Chief Financial Officer. Ms. Piton commenced employment with us on January 23, 2007.

Pursuant to the terms of her agreement with us, Ms. Piton receives a minimum base salary of \$225,000 per year and is eligible to receive a year-end annual bonus, if any, the minimum targeted amount of which is 30% of her salary. Additionally, under the terms of the agreement, Ms. Piton was granted an option to purchase 100,000 shares of our common stock under our 2005 Equity Incentive Plan at a per-share exercise price equal to the fair market value of our common stock on the date of grant. The terms of the agreement as amended also required Ms. Piton to relocate within a 50-mile radius of our current principal office within 6 months of her start date. We

have reimbursed her in an amount up to \$75,000 for out-of-pocket expenses incurred in connection with her relocation. However, if Ms. Piton voluntarily terminates her employment with us during the 3-year period following January 5, 2007, she will repay to us a portion of the total sum previously reimbursed. Pursuant to the terms of the agreement, either we or Ms. Piton may terminate Ms. Piton's employment under the agreement at any time for any reason or no reason and no minimum period of employment is required. If Ms. Piton voluntarily terminates the agreement, she must give us at least 45 days' prior written notice. If we voluntarily terminate the agreement, we are not obligated to give Ms. Piton any prior written notice. In the event that we terminate the employment of Ms. Piton without cause or if she terminates her employment for good reason, each as defined in the agreement, Ms. Piton is entitled to a severance payment equal to six months of her then base salary, which based on her current salary would equal a payment of \$117,000. If such termination occurs during a change of control period, Ms. Piton is entitled to a severance payment equal to six months of her then base salary plus an amount equal to her full bonus potential for the year in which the termination occurred, which severance payment would equal \$187,200 based on her current base salary and target bonus potential for 2008.

#### *Consulting Agreement with Michael D. Hooven*

We entered into a Consulting Agreement, dated as of January 1, 2007, with Michael D. Hooven, who is also one of our directors and co-founders. Under the terms of the agreement, Mr. Hooven provided consulting services and advice to us with respect to the creation and development of new products and product platforms relating to cardiac arrhythmias and the prevention or reduction of strokes using cardiac devices.

Pursuant to the terms of the agreement, Mr. Hooven devoted 20 hours per week to the performance of his obligations under the agreement. As consideration for his services and for assigning the rights to inventions, designs, patents, trademarks and copyrights and other intellectual property as provided for in the agreement, Mr. Hooven was paid \$12,000 per month. Additionally, under the terms of the agreement, until December 31, 2009, Mr. Hooven will not compete with us in the United States and will not solicit any of our employees or independent contractors to leave, or cease rendering services to, us. Additionally, until December 31, 2009, Mr. Hooven will not distribute, sell, market or promote any medical device that is designed to prevent, treat or diagnose cardiac diseases or disorders unless he notifies us and provides us with an opportunity to consummate an agreement to jointly engage in the activities in which he proposes to engage. The term of the agreement was one year and ended on December 31, 2007.

#### *Enable Medical Corporation*

Contemporaneously with the closing of our initial public offering, we acquired Enable Medical Corporation, the manufacturer of our Isolator<sup>®</sup> bipolar ablation clamps for an aggregate purchase price of \$7 million. Michael Hooven, Karen Robards and one former Board member, directly or indirectly, held an aggregate of approximately 63% of the outstanding common stock of Enable and, accordingly, received a majority of the amounts that we paid to acquire Enable. If we sell certain assets that were acquired as part of the Enable acquisition prior to the third anniversary of the closing of our acquisition of Enable, we will be required to pay the former shareholders of Enable 50% of the consideration from that sale that is in excess of \$1 million, subject to a maximum payment to the Enable shareholders of \$2 million.

#### *Registration Rights Agreements*

We have entered into agreements with certain of our common stockholders under which those stockholders have certain customary demand and piggyback registration rights with respect to their shares of common stock. The directors, executive officers and holders of more than 5% of our common stock that are parties with ongoing rights under these agreements are Donald C. Harrison, M.D. and entities affiliated with U.S. Venture Partners, Camden Partners and Foundation Medical Partners, L.P.

*Family Relationships*

There are no family relationships among any of our directors, director nominees or executive officers. However, we have extended an offer of employment to Mr. Drachman's son as an entry-level member of our sales force, effective June 2, 2008.

*Indemnification Agreements*

We have entered into indemnification agreements with our directors and executive officers for the indemnification of and advancement of expenses to these persons to the fullest extent permitted by law. We also intend to enter into these agreements with our future directors and executive officers.

**Communications with the Board of Directors**

Stockholders are invited to communicate to the Board or its committees by writing to: AtriCure, Inc., Chairman of the Board of Directors, 6033 Schumacher Park Drive, West Chester, Ohio 45069. All such stockholder communications will be forwarded to the specific director or directors to whom the communications are addressed.

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**PROPOSAL TWO APPROVAL OF THE 2008 EMPLOYEE STOCK PURCHASE PLAN**

In April 2008, the Board adopted the 2008 Employee Stock Purchase Plan (the Purchase Plan ), subject to stockholder approval.

The purpose of the Purchase Plan is to allow eligible employees of AtriCure, Inc. (and the employees of any of AtriCure's subsidiary companies) to purchase shares of Common Stock at periodic purchase dates through their accumulated payroll deductions at a modest discount from fair market value. The Board believes the Purchase Plan will help attract, motivate, and retain the best available talent suitable for AtriCure's success while also helping to align the interests of our employees with those of our stockholders.

The terms and provisions of the Purchase Plan are summarized below. This summary, however, does not purport to be a complete description of the Purchase Plan. The Purchase Plan, in substantially the form in which it will take effect if this Proposal Two is approved by the stockholders, has been filed with the SEC as an attachment to this proxy statement as Appendix A and may be accessed from the SEC's home page at [www.sec.gov](http://www.sec.gov). The following summary is qualified in its entirety by reference to the complete text of the Purchase Plan. Any stockholder that wishes to obtain a copy of the actual plan document may do so by written request to: Chief Financial Officer, AtriCure, Inc., 6033 Schumacher Park Drive, West Chester, Ohio 45069.

The following is a summary of the material features of the Purchase Plan:

***Purpose***

The purpose of the Purchase Plan is to provide a means by which certain employees may be given an opportunity to purchase AtriCure's Common Stock through payroll deductions, to attract, motivate, and retain the services of those individuals, and to provide incentives for those persons to exert maximum efforts toward AtriCure's success while also helping to align the interests of our employees with those of our stockholders. Substantially all of the approximately 220 employees of AtriCure are eligible to participate in the Purchase Plan.

The rights to purchase Common Stock granted under the Purchase Plan are intended to qualify as options issued under an employee stock purchase plan as that term is defined in Section 423(b) of the Internal Revenue Code of 1986.

***Administration***

The Board administers the Purchase Plan and has the final power to construe and interpret both the Purchase Plan and the purchase rights granted thereunder. The Board has the power, subject to the provisions of the Purchase Plan, to determine the provisions of each offering of rights to purchase AtriCure's Common Stock and whether employees of any of AtriCure's subsidiary companies will be eligible to participate in the Purchase Plan.

The Board has the power to delegate administration of the Purchase Plan to a committee composed of not fewer than two members of the Board, each of whom is a non-employee director, and it is anticipated that the Compensation Committee will serve in that capacity. As used herein with respect to the Purchase Plan, the Board refers to any committee the Board appoints for such purposes as well as to the Board itself.

***Stock Subject to Purchase Plan***

Subject to approval of this Proposal Two, an aggregate of 300,000 shares of Common Stock are reserved for issuance under the Purchase Plan. In addition, the number of shares of Common Stock available for issuance under the Plan will automatically increase on January 1st of each year commencing in 2009 and ending on (and including) January 1, 2018, in an amount equal to the lesser of (i) two percent (2%) of the Company's outstanding shares of Common Stock as of the close of business on the last business day of the prior calendar year, not to exceed 600,000 shares, or (ii) a lesser amount determined by the Board. If rights granted under the

Purchase Plan expire, lapse or otherwise terminate without being exercised, the shares of Common Stock not purchased under such rights again become available for issuance under the Purchase Plan.

***Offering Periods***

Shares of Common Stock are offered under the Purchase Plan through a series of offering periods of approximately six months commencing on any January 1 or July 1 and terminating on the last Trading Day on or before the next occurring June 30 or December 31. The Board has the authority to alter the duration of subsequent offering periods. When an eligible employee elects to join an offering period, he or she is granted a purchase right to acquire shares of Common Stock on each exercise date within the offering period. On the exercise date, all payroll deductions collected from the participant are automatically applied to the purchase of Common Stock, subject to certain limitations.

***Eligibility***

Any person who is not a temporary employee and is employed on the first day of an offering period is eligible to participate in that offering period under the Purchase Plan, provided such employee's customary employment is for more than twenty hours per week and for more than five months in any calendar year.

However, no employee is eligible to participate in the Purchase Plan if, immediately after the grant of purchase rights, the employee would own, directly or indirectly, stock possessing 5% or more of the total combined voting power or value of all classes of stock of AtriCure or of any of AtriCure's subsidiary companies (including any stock which such employee may purchase under all outstanding purchase rights and options). In addition, no employee may purchase more than \$25,000 worth of AtriCure's Common Stock (valued at the time each purchase right is granted) for any one calendar year. In the event the Plan is not in effect for the entire calendar year, the \$25,000 limitation shall be proportionately reduced consistent with the portion of such year for which the Plan is in effect.

***Participation in the Plan***

Eligible employees enroll in the Purchase Plan by delivering to AtriCure, fifteen days (or such shorter or longer periods as determined by the Board) prior to the first trading day of the offering period, an agreement authorizing payroll deductions in whole percentages of up to 10% of such employees' eligible compensation during the offering period.

***Purchase Price***

The purchase price per share at which shares of Common Stock are sold on each purchase date during an offering period shall be the lesser of (a) 85% of the fair market value per share of Common Stock on the first trading day of the offering period, or (b) 85% of the fair market value per share of Common Stock on that exercise date; whichever is lower or such higher amount, if any, for future offering periods as determined by the Board.

***Payment of Purchase Price; Payroll Deductions***

The purchase price of the shares is funded by payroll deductions accumulated over the offering period. At any time during the offering period, a participant may change or terminate his or her payroll deductions. The Board may, in its discretion, limit the number of participation rate changes during any offering period. The change in rate will be effective with the first full payroll period following five business days after the AtriCure's receipt of the new Subscription Agreement. All payroll deductions made for a participant are credited to his or her account under the Purchase Plan.

***Purchase of Stock***

By executing an agreement to participate in the Purchase Plan, the employee is entitled to purchase shares under the Purchase Plan. In connection with offerings made under the Purchase Plan, the Board may specify a maximum total market value of Common Stock an employee may purchase, a maximum amount of payroll

deductions on each pay day during an offering period and the maximum aggregate number of shares of Common Stock that may be available for all participants in a calendar year. If the aggregate number of shares to be purchased upon exercise of outstanding purchase rights in the offering would exceed the maximum aggregate number of shares of Common Stock available, the Board will make a pro rata allocation of available shares in a uniform and equitable manner. Unless the employee's participation is discontinued, his or her payroll deductions credited to his or her account will be paid to the employee as soon as possible. See *Withdrawal* below.

#### ***Withdrawal***

A participant may withdraw all but not less than all of the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in a form acceptable to the Board. All of the participant's payroll deductions credited to his or her account during the offering period shall be paid to such participant as soon as possible after receipt of notice of withdrawal, that participant's option for the offering period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made for that offering period. However, an employee's withdrawal from an offering does not affect such employee's eligibility to participate in subsequent offerings under the Purchase Plan.

#### ***Termination of Employment***

Purchase rights granted pursuant to any offering under the Purchase Plan terminate immediately upon cessation of employment for any reason, and AtriCure will refund all accumulated payroll deductions to the terminated employee without interest.

#### ***Restrictions on Transfer***

Purchase rights granted under the Purchase Plan are not transferable and may be exercised only by the person to whom such rights are granted.

#### ***Changes in Capitalization***

In the event that there is any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by AtriCure, proportionate adjustments will be made to (a) the maximum number of shares of Common Stock subject to the Purchase Plan and (b) the number of shares and price per share in effect under each outstanding purchase right.

#### ***Effect of Certain Corporate Transactions***

In the event there is a merger, dissolution or change in control, the current offering period will be shortened by setting a new exercise date and will terminate immediately prior to the consummation of such proposed dissolution, liquidation, merger or change in control, unless provided otherwise by the Board. The new exercise date will be before the effective date of AtriCure's proposed dissolution, liquidation, merger or change in control. The Board shall notify each participant in writing, at least ten business days prior to the new exercise date, that the exercise date for the participant's option has been changed to the new exercise date and that the participant's option will be exercised automatically on the new exercise date.

#### ***Termination and Amendment***

The Board may amend or terminate the Purchase Plan at any time. To the extent necessary to comply with any applicable law, regulation or stock exchange rule, the Company will obtain stockholder approval of any amendment. Except as provided in the Purchase Plan, purchase rights granted before amendment or termination of the Purchase Plan will not be impaired by any amendment or termination of the Purchase Plan without consent of the employee to whom such purchase rights were granted.

***Federal Income Tax Information***

The following is a summary of the principal United States Federal income taxation consequences to participants and AtriCure with respect to participation in the Purchase Plan. This summary is not intended to be exhaustive, and does not discuss the income tax laws of any city, state or foreign jurisdiction in which a participant may reside.

The Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Code. Under such an arrangement, a participant will be taxed on amounts withheld for the purchase of shares of Common Stock as if such amounts were paid directly to the participants. However, no taxable income will be recognized by a participant, and no deductions will be allowable to AtriCure, upon either the grant or exercise of purchase rights. Taxable income is not recognized until there is a sale or other disposition of the s