

AtriCure, Inc.
Form DEF 14A
April 18, 2011

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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- (3) Filing Party:

- (4) Date Filed:

ATRICURE, INC.

6217 Centre Park Drive

West Chester, Ohio 45069

NOTICE OF 2011 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 18, 2011

To Our Stockholders:

You are cordially invited to attend the 2011 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 6217 Centre Park Drive, West Chester, Ohio 45069 on Wednesday, May 18, 2011, 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 2012 Annual Meeting of Stockholders and until their successors have been duly elected and qualified;
2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2011; and
3. To transact such other business as may properly come before the Annual Meeting.

The Annual Meeting will begin promptly at 9:00 a.m. (EDT) and check-in will begin at 8:30 a.m. (EDT). Only holders of record of shares of AtriCure common stock (Nasdaq: ATRC) at the close of business on April 1, 2011, will be entitled to notice of, and to vote at, the Annual Meeting and any postponements or adjournments of the Annual Meeting.

We are pleased again to take advantage of U.S. Securities and Exchange Commission rules that allow companies to furnish their proxy materials over the Internet. As a result, we are mailing to most of our stockholders a Notice of Internet Availability of Proxy Materials (the *Notice*) with this proxy statement and our 2010 Annual Report. The Notice contains instructions on how to access and review those documents over the Internet. The Company believes that this process allows us to provide our stockholders with the information they need in a more timely manner.

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 18, 2011

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.

*****IMPORTANT NOTICE*****

Regarding Internet Availability of Proxy Materials

for the Annual Meeting to be held on May 18, 2011

You are receiving this communication because you hold shares in the above company, and the materials you should review before you cast your vote are now available.

The proxy statement and annual report to security holders are available at:

<http://phx.corporate-ir.net/phoenix.zhtml?c=189981&p=proxy>

ATRICURE, INC.

PROXY STATEMENT

FOR

2011 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 2011 Annual Meeting of Stockholders to be held on Wednesday, May 18, 2011, beginning at 9:00 a.m. (EDT) at our principal executive offices located at 6217 Centre Park Drive, West Chester, Ohio 45069, and at any postponements or adjournments thereof. This proxy statement contains important information regarding the 2011 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, 2010, filed with the U.S. Securities and Exchange Commission, or SEC, and the term *meeting* means our 2011 Annual Meeting of Stockholders.

We are sending these proxy materials on or about April 18, 2011, to all stockholders of record at the close of business on April 1, 2011 (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 April 1, 2011, 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 2010 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 April 1, 2011 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 April 1, 2011, 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; and

2. The ratification of the appointment of our independent registered public accounting firm for the 2011 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 Annual Meeting or any postponement or adjournment thereof, each properly executed proxy card will be voted in the discretion of the proxies named therein.

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; and

(2) FOR the ratification of our independent registered public accounting firm for the 2011 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 April 1, 2011. You may vote all shares owned by you as of April 1, 2011, 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.

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 April 1, 2011, 16,069,345 shares of our common stock were outstanding. 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 revoke and 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.

Ratification of the Independent Registered Public Accounting Firm. For the approval of the ratification of the 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 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** 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 ratification of the appointment of an independent public accounting firm (Proposal 2) is considered a routine matter. Your broker, therefore, may vote your shares in its discretion on this routine matter if you do not instruct your broker how to vote on them. If a matter is not considered routine, then your broker is prohibited from voting your shares on the matter unless you have given voting instructions on that matter to your broker. **Because Proposal 1 (election of directors) is not considered routine, brokers holding shares for their customers will not have the ability to cast votes with respect to Proposal 1 unless they have received instructions from their customers. It is important, therefore, that you provide instructions to your broker if your shares are held by a broker so that your vote with respect to Proposal 1 is counted. Your broker, therefore, will need to return a proxy card without voting on Proposal 1 if you do not give voting instructions with respect to the matter. This is referred to as a broker non-vote.**

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 shares represented and entitled to vote with respect to a proposal (other than with respect to the election of directors), but they will not be voted on any matter at the meeting. Accordingly, abstentions will have the same effect as a vote AGAINST Proposal 2.

What happens if additional matters are presented at the meeting?

Other than the two 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?

The Secretary of the Company will 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 a Current Report on Form 8-K within four business days after the meeting.

What is the deadline to propose actions for consideration at next year's annual 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 2012 (the 2012 Annual Meeting), the written proposal must be received by the Secretary of AtriCure at our principal executive offices no earlier than November 19, 2011 and no later than December 19, 2011. However, if the date of our 2012 Annual Meeting changes by more than 30 days from the date of the meeting, then your notice must be received not later than the close of business on the later of (i) the 150th day prior to the date of the 2012 Annual Meeting or (ii) the 10th day following the date we make a public announcement of the date of the 2012 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 and any other applicable rules established by the SEC. Proposals should be addressed to:

AtriCure, Inc.

Attn: Secretary

6217 Centre 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 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 19, 2011 and no later than December 19, 2011.

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.

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 eight 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 and Karen P. Robards, whose terms expire at this meeting.

Director Nominees

The Nominating and Corporate Governance Committee recommended and the Board nominated the following people, each of whom are current directors, for re-election as 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 and Karen P. Robards. If elected, these nominees will hold office as directors until our 2012 Annual Meeting, 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 April 1, 2011, length of service on the Board and certain biographical information is as follows:

Richard M. Johnston. Mr. Johnston, 76, has served as one of our directors since June 2002 and as Chairman of the Board since February 2005. From 2000 to 2010, Mr. Johnston served as a Managing Member of Camden Partners Holdings, LLC, a private equity firm, and he is now a Retired Member of that firm. Mr. Johnston currently serves as a director of BioMedical Enterprises, Inc., Lombard Medical Technologies PLC, Medivance, Inc. and Webmedx, Inc., all Camden Partners portfolio companies of which Lombard Medical Technologies PLC is a publicly-held company in the United Kingdom. During the last five years Mr. Johnston previously served as director of privately-held LipoScience Inc. and as Chairman of privately-held Picis, Inc. as well as a director of Pet DRx Corporation, a publicly-held company. 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. Mr. Johnston's service as a director of several medical device companies and chairman of the board of a large healthcare system provides him insight into the high-level corporate governance, executive compensation and business management matters that the Company and the Board consider on a regular basis.

Mark A. Collar. Mr. Collar, 58, has served as one of our directors since February 2008. Mr. Collar retired in 2008 as an executive from 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 a venture partner at Triathlon Medical Ventures, a Midwest-based life science venture capital firm, and a director of First Financial Bancorp, a publicly-held bank holding company, in addition to several philanthropic positions. Mr. Collar received his B.S. from Northern Illinois University. Mr. Collar's experience as a public company executive and Board member provides him insight into high-level corporate governance and business management matters, which the Board considers on a regular basis.

David J. Drachman. Mr. Drachman, 52, 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 a North American Society of Pacing and Electrophysiology certification in Electrophysiology, Cardiac Pacing and Defibrillation. Mr. Drachman's position as the President and Chief Executive Officer of the Company gives him unique insights into the Company's business operations and corporate strategy, from which the Board uniquely benefits as result of his service as a director. Mr. Drachman also has experience with health care compliance issues central to the Company given that it operates in the surgical and medical device industry.

Donald C. Harrison, M.D. Dr. Harrison, 77, has served as one of our directors since November 2000. Since 2004, Dr. Harrison has served as a Managing 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, EnteroMedics, Inc., a publicly-held developer of medical devices for the treatment of obesity and gastrointestinal disorders, Sidis Technologies, Inc., a privately-held information technology services company, CoRepair, Inc., a privately-held heart failure company, Ischemia Care LLC, a privately-held company that performs genetic testing for stroke, and Minimally Invasive Devices LLC, a privately-held medical device company that develops products that facilitate minimally invasive surgery. From 1986 to 2003, Dr. Harrison was the Senior Vice President and Provost for Health Affairs at the University of Cincinnati. In this capacity, he served as the Chief Executive Officer of the Medical Center. 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. Dr. Harrison has been a practicing cardiologist for the past 50 years, and he is a long-time member of, and prominent figure in, the medical device industry and has broad experiences in various healthcare-related fields. As a former chief executive, Dr. Harrison also brings unique perspectives on business operations and financial matters.

Michael D. Hooven. Mr. Hooven, 55, is one of our founders and has served as a director since August 2002 and as a consultant during 2007 and 2009. 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 AtriCure 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, and Minimally Invasive Devices LLC, a privately-held medical device company that develops products that facilitate minimally invasive surgery. 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 of Siemens AG. Mr. Hooven received his B.S. and M.S. from the University of Michigan. As the founder of our Company, Mr. Hooven possesses a familiarity with respect to its operating history and, as a founder and senior executive of, and consultant to, several other companies in the medical and surgical device industry, he brings to the Board an industry-wide perspective that can be utilized in evaluating and improving the Company's competitive position.

Elizabeth D. Krell, Ph.D. Dr. Krell, 62, 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 2001 as the Deputy Director for Science, in the FDA's Center for Devices and Radiological Health (CDRH). In this position 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. Dr. Krell brings valuable risk assessment and healthcare compliance skills to the Board as a result of her experience designing safety and effectiveness programs as well as familiarity with many aspects of the FDA's policies and procedures, which plays an important part in the Company's business.

Mark R. Lanning, C.P.A. Mr. Lanning, 56, has served as one of our directors since February 2006. Mr. Lanning currently serves as Vice President, Investor Relations of Hillenbrand, Inc., a diversified leader in the funeral services and materials handling industries. 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 a member of the Council of the American Institute of CPAs and is a past Chairman of the Indiana CPA Society. Mr. Lanning received his B.S. in Accounting from Ball State University. As a certified public accountant, Mr. Lanning developed significant experience in preparing, auditing, analyzing and evaluating financial statements and dealt with broad and complex accounting issues comparable to those of the Company, which qualifies him as an audit committee financial expert under SEC rules.

Karen P. Robards. Ms. Robards, 61, 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 from 1996 to 2005, a developer and manufacturer of surgical instruments, which we acquired on August 10, 2005. From 2007 to 2010, Ms. Robards also served as a director of Care Investment Trust, a publicly-held real estate investment trust focusing on investment opportunities in the healthcare industry. Ms. Robards currently serves as Vice Chair of the Board and Chair of the Audit Committee of BlackRock Closed-End Funds. 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. The Board believes that the Company benefits from Ms. Robards' substantial knowledge and experience in the areas of corporate finance and capital markets, most of which was gained within the healthcare field. Ms. Robards also qualifies as an audit committee financial expert under SEC rules due to her experience in analyzing financial statements during her professional career and her membership on other public company audit committees.

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 Stock Market (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 eight 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 and Karen P. Robards. 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, who has been an employee and a consultant of ours, are independent directors under the listing standards established by Nasdaq. See Certain Relationships and Related Party Transactions below.

As required under the Nasdaq listing standards, our non-management 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. Each committee has a written charter which is available on our website at www.atricure.com under Investor Relations-Corporate Governance. From time to time, our Board may also appoint committees for special purposes. The table below provides the membership of each of the committees, with further discussion on each committee and its function below the table.

Name	Audit	Compensation	Nominating and Corporate Governance
Mr. Collar			X
Dr. Harrison, M.D.	X		X
Mr. Johnston		X	C
Dr. Krell, Ph.D			X
Mr. Lanning	C*	X	
Ms. Robards	X*	C	

C = Chair

* = Board designated audit committee financial expert under SEC rules.

Audit Committee. Our Audit Committee currently consists of Mark R. Lanning (Chair), 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 Mark R. Lanning and Karen P. Robards each qualify as an audit committee financial expert, as defined in SEC rules.

Compensation Committee. Our Compensation Committee currently consists of Karen P. Robards (Chair), Richard M. Johnston 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 SEC. The composition of the Compensation Committee satisfies the independence requirements of Nasdaq.

Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee currently consists of Richard M. Johnston (Chair), Mark A. Collar, Donald C. Harrison, M.D. 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, overseeing certain regulatory compliance issues in connection with our Corporate Integrity Agreement between the Office of Inspector General of the Department of Health and Human Services, 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.

Meetings of the Board and Committees of the Board

During 2010, the Board held six meetings and took action in writing on one occasion. The Audit Committee held eight meetings, the Compensation Committee held five meetings and took action in writing on one occasion and the Nominating and Corporate Governance Committee held five meetings.

Our directors are strongly encouraged to attend the Company's annual meeting of stockholders. All of our directors attended the 2010 Annual Meeting, as well as at least 75% of the aggregate of all Board meetings and all meetings of Committees on which such directors served during 2010.

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 6217 Centre 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 the solicitation of proxies for election 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 Board determined to waive the age limit for Richard M. Johnston and Donald C. Harrison, M.D., with respect to election at the meeting because of the Board's determination that their knowledge and insight continue to benefit the Board and enhance overall Board effectiveness. 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.

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 nor does the Committee have a formal policy with respect to diversity. Candidates properly recommended by stockholders are evaluated by the independent directors using the same criteria as other candidates.

Director Compensation

Effective January 1, 2011, we pay an annual retainer, quarterly in advance, to our non-employee directors of \$25,000. We also pay an additional fee of \$25,000 to the Chairman of the Board, \$12,500 to the Chairperson of the Audit Committee, \$10,000 to the Chairperson of the Compensation Committee and \$7,500 to the Chairperson of the Nominating and Corporate Governance Committee. Non-employee directors also receive a fee for each Board meeting of \$1,500 for in-person attendance and \$1,000 for participation by telephone and a fee for each Committee meeting of \$1,000 for in-person attendance and \$500 for participation by telephone.

Upon joining our Board, each non-employee director receives an initial grant of 50,000 stock options which vest one-fourth on each of the first four anniversaries of the date of the grant. Annually, concurrent with 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 earned by our non-employee directors for the year ended December 31, 2010.

Name	Fees Earned	Stock	Option	Total (\$)
	or Paid in Cash (\$) ⁽¹⁾	Awards (\$) ⁽¹⁾	Awards (\$) ⁽¹⁾	
Richard M. Johnston	63,200		33,131	96,331
Mark A. Collar	29,850		33,131	62,981
Donald C. Harrison, M.D.	32,450		33,131	65,581
Michael D. Hooven	26,500		33,131	59,631
Elizabeth D. Krell, Ph.D.	28,450		33,131	61,581
Mark R. Lanning	44,250		33,131	77,381
Karen P. Robards	39,250		33,131	72,381

⁽¹⁾ Amounts in the option awards column represent the aggregate grant date fair value of option awards computed, as of each award date, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 718, Compensation Stock Compensation (ASC 718). No stock awards were granted during 2010.

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 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 reflects our values and the business practices and principles of behavior that support this commitment. Our Code of Business Conduct and Ethics 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 of Business Conduct and Ethics 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, our Senior Financial Officers and other financial personnel. Each officer, director and employee is responsible for understanding and complying with the Code of Business Conduct and Ethics. Each Code is available on our website at www.atricure.com under Investor Relations Corporate Governance. We will post any amendments to either Code, as well as any waivers that are required to be disclosed by the rules of the SEC or Nasdaq, on our website.

We have also adopted and implemented voluntary standards established by the Advanced Medical Technology Association (AdvaMed), a United States trade association for medical device manufacturers, governing interactions between medical device manufacturers and healthcare professionals known as the AdvaMed Code of Ethics on Interactions with Health Care Professionals (AdvaMed Code). These standards are intended to ensure that such interactions are transparent and comply with applicable laws, regulations and government guidance. The standards address interactions related to sales and marketing practices, research and development, product training and education, grants and charitable contributions, support of third-party educational conferences, and consulting arrangements.

Compensation Committee Interlocks and Insider Participation

During 2010 and through the date of this proxy statement, none of the members of our Compensation Committee was or is an officer or employee of the Company, has or had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K and no executive officer of the Company served or serves on the compensation committee or board of any company that employed or employs any member of the Company's Compensation Committee or Board of Directors.

Certain Relationships and Related Party Transactions

Our Audit Committee charter provides that the Audit Committee will review and discuss with management potential transactions with related parties. Related party transactions requiring Audit Committee approval include transactions that are significant in size and transactions that involve terms or aspects that differ from those which would be entered into between independent parties.

Effective October 1, 2010, the Company promoted David J. Drachman, Jr., the son of the Company's President and Chief Executive Officer, to the position of Regional Sales Manager. In connection with his employment, Mr. Drachman, Jr. received annual compensation of \$89,682 in 2009 and \$168,668 in 2010.

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 or the Chair of a Board committee, 6217 Centre 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.

Board Leadership Structure

The Company has separated the Chief Executive Officer and Board Chairman positions. Mr. Johnston serves as our Chairman of the Board and presides over Board meetings and provides the Company with the benefit of his strategic and creative vision, an appreciation for and understanding of the risks associated with the Company's business and an intimate knowledge of the Company's technologies and the medical device industry. Mr. Drachman serves as our Chief Executive Officer and provides the Company with the benefit of his extensive knowledge of the Company's operations, an understanding of the day-to-day challenges faced by companies in the medical device industry and his business and financial know-how.

The Board currently believes that, at this time, based on the skills and responsibilities of the various Board members and management, and in light of the general economic, business and competitive environment facing the Company, the separation of the Chairman and Chief Executive Officer roles enhances appropriate oversight of management by the Board, Board independence, the accountability to our stockholders by the Board and our overall leadership structure. Furthermore, the Board believes that maintaining separation of the Chairman function from that of the Chief Executive Officer allows the Chief Executive Officer to properly focus on managing the business, rather than requiring a significant portion of his efforts to be spent on also overseeing Board matters.

Board's Role in Risk Oversight

The Board maintains oversight responsibility for the management of the Company's risks and closely monitors the information it receives from management to provide oversight and guidance to our management team concerning the assessment and management of risk. The Board approves the Company's high level goals, strategies and policies to set the tone and direction for appropriate levels of risk taking within the business.

The Board has delegated oversight for matters involving certain specific areas of risk exposure to its committees. Each committee reports to the Board of Directors at regularly scheduled Board meetings, and more frequently if appropriate, with respect to the matters and risks for which the committee provides oversight.

The Audit Committee oversees the integrity of our financial statements, risks related to our financial reporting process and internal controls, the independent auditors' qualifications, independence and performance, and the Company's corporate finance matters. The role of the Audit Committee includes receiving, at least annually, a discussion of the major risk exposures identified by senior management, the key strategic plan assumptions considered during the assessment and steps implemented to monitor and mitigate such exposures on an ongoing basis.

Our Compensation Committee is responsible primarily for the design and oversight of the Company's executive compensation policies, plans and practices. A key objective of the Compensation Committee is to ensure that the Company's overall executive compensation program appropriately links pay to performance and aligns the interests of the Company's executives with its stockholders.

The Nominating and Corporate Governance Committee oversees risks related to our corporate governance, including Board and director performance, director succession and the Company's Corporate Governance Guidelines and other governance documents. The Nominating and Corporate Governance Committee is also responsible for conducting a review of the Company's compliance program in connection with the Corporate Integrity Agreement between the Office of Inspector General of the U.S. Department of Health and Human Services and the Company.

PROPOSAL TWO RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected Deloitte & Touche LLP as the independent registered public accounting firm to perform the audit of the Company's financial statements for the year ending December 31, 2011. Deloitte & Touche LLP has audited the Company's financial statements since 2002.

The Board is asking the stockholders to ratify the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2011. Although not required by law, the rules of Nasdaq, or the Company's Bylaws, the Board is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee may reconsider whether it should appoint another independent registered public accounting firm. Even if the selection is ratified, the Audit Committee, in its discretion, may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

Representatives of Deloitte & Touche LLP are expected to be present at the meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from the Company's stockholders.

Board of Directors Recommendation

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2011.

Audit and Non-Audit Services

The Audit Committee is directly responsible for the appointment, compensation and oversight of the Company's independent auditor. In addition to retaining Deloitte & Touche LLP to audit the Company's financial statements for 2010, the Audit Committee retained Deloitte & Touche LLP to provide audit-related services and certain other services in 2010. The Audit Committee understands the need for Deloitte & Touche LLP to maintain objectivity and independence in its audits of the Company's financial statements. The Audit Committee has reviewed all non-audit services provided by Deloitte & Touche LLP in 2010 and has concluded that the provision of such services was compatible with maintaining Deloitte & Touche LLP's independence in the conduct of its auditing functions.

The aggregate fees billed or to be billed by Deloitte & Touche LLP for audit services provided to the Company for 2010 and 2009 and billed related to other services provided during 2010 and 2009 were as follows:

Service Category	2010	2009
Audit Fees	\$ 369,736	\$ 342,000
Audit-Related Fees	2,482	1,145
Tax Fees		
All Other Fees		
Total	\$	
Total assets acquired	547.2	
Current liabilities	144.5	
Current liabilities held for sale	4.4	
Long-term liabilities	90.6	
Total liabilities assumed	239.5	
Net assets acquired	\$ 307.7	

Table of Contents**2. Acquisition (continued)**

The acquisition was accounted for using the purchase method of accounting, and accordingly, the results of operations have been included in the company's financial statements from the April 3, 2006 date of acquisition.

The pro forma unaudited results of operations for the six month period ended June 30, 2006 assuming consummation of the purchase as of January 1, 2006, are as follows (dollars in millions except per share data):

	Six months ended June 30, 2006	
Net sales	\$	1,183.2
Earnings from continuing operations		44.4
Net earnings		44.3
Earnings per common share:		
Basic		
Continuing operations	\$	1.46
Discontinued operations		
Net	\$	1.46
Diluted		
Continuing operations	\$	1.43
Discontinued operations		
Net	\$	1.43

The pro forma results have been prepared for informational purposes only and include adjustments to depreciation expense of acquired plant and equipment, amortization of intangible assets other than goodwill and trademarks, increased interest expense on acquisition debt, and certain other adjustments, together with related income tax effects of such adjustments. Anticipated efficiencies from the consolidation of manufacturing and commercial activities and anticipated lower material costs related to the consolidation of purchasing have been excluded from the pro forma operating results. These pro forma results do not purport to be indicative of the results of operations that would have occurred had the purchase been made as of the beginning of the periods presented or of the results of operations that may occur in the future.

3. Inventories (dollars in millions)

	June 30, 2007	December 31, 2006
Finished products	\$ 207.8	\$ 191.1
Work in process	66.3	66.4
Raw materials	109.5	110.6
	383.6	368.1
LIFO reserve	83.2	70.8
	\$ 300.4	\$ 297.3

Table of Contents**4. Goodwill**

Changes in the carrying amount of goodwill during the six month period ended June 30, 2007 including the finalization of purchase price allocation associated with the GSW acquisition (see Note 2) consisted of the following (dollars in millions):

	Water Products	Electrical Products	Total
Balance at December 31, 2006	\$ 253.9	\$ 245.8	\$ 499.7
Acquisition of business	9.2		9.2
Currency translation adjustment	4.4		4.4
Balance at June 30, 2007	\$ 267.5	\$ 245.8	\$ 513.3

5. Restricted Marketable Securities

As described in Note 2, the company acquired GSW on April 3, 2006. GSW operated a captive insurance company to provide product liability and general liability insurance to its subsidiary American Water Heater Company (American). The company has decided to cover American s prospective liability exposures with its existing insurance programs and all product liability claims for events which occurred prior to July 1, 2006 will be financed by the captive. The reinsurance company restricts the amount of capital which must be maintained by the captive and this restricted amount is \$38.0 million at June 30, 2007. The \$38.0 million is invested in short-term securities and is included in other assets on the company s balance sheet at June 30, 2007. The cost of the short-term securities approximates fair value.

6. Long-Term Debt

On February 17, 2006, in support of the GSW acquisition (see Note 2), the company completed a \$425 million multi-currency revolving credit agreement with ten banks. The facility expires in 2011 and has an accordion provision which allows it to be increased up to \$500 million. Borrowing rates under the facility are determined by the company s leverage ratio.

On April 3, 2006, the company s Canadian subsidiary issued \$30 million (Canadian) in term notes with two insurance companies. The notes expire in 2018 and carry an average interest rate of 5.3%.

Borrowings under the company s bank credit lines and commercial paper borrowings are supported by the \$425 million revolving credit agreement. As a result of the long-term nature of this facility, the commercial paper and credit line borrowings are classified as long-term debt.

Table of Contents**7. Product Warranties (dollars in millions)**

The company offers warranties on the sales of certain of its products and records an accrual for the estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. The following table presents the company's warranty liability activity for the six-months ended June 30, 2007 and 2006, respectively and includes finalization of purchase price allocation associated with the GSW acquisition (see Note 2):

	2007	2006
Balance at January 1	\$ 98.7	\$ 52.4
GSW liability acquired	5.0	38.3
Expense	29.6	26.6
Claims settled	(25.5)	(23.2)
Balance at June 30	\$ 107.8	\$ 94.1

8. Comprehensive Earnings (dollars in millions)

The company's comprehensive earnings are comprised of net earnings, foreign currency translation adjustments, adjustments to minimum pension liability and post retirement obligations, and realized and unrealized gains and losses on cash flow derivative instruments.

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Net earnings	\$ 27.0	\$ 25.1	\$ 46.5	\$ 40.6
Other comprehensive earnings (loss):				
Foreign currency translation adjustments	1.5	(7.4)	3.1	(7.4)
Adjustment to additional minimum pension liability and post retirement obligation less related income tax benefit of \$2.2	(3.5)		(3.5)	
Unrealized net gains on cash flow derivative instruments less related income tax provision: 2007 \$0.4 and \$0.3, 2006 \$9.2 and \$12.7	0.5	14.3	0.5	19.8
Comprehensive earnings	\$ 25.5	\$ 32.0	\$ 46.6	\$ 53.0

Table of Contents**9. Earnings per Share of Common Stock**

The numerator for the calculation of basic and diluted earnings per share is net earnings. The following table sets forth the computation of basic and diluted weighted-average shares used in the earnings per share calculations:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Denominator for basic earnings per share weighted average shares	30,631,789	30,399,110	30,601,360	30,337,572
Effect of dilutive stock options, restricted stock and share units	367,529	661,043	400,951	654,847
Denominator for diluted earnings per share	30,999,318	31,060,153	31,002,311	30,992,419

10. Stock-Based Compensation

The company adopted the A. O. Smith Combined Incentive Compensation Plan (the "plan") effective January 1, 2007. The plan is a continuation of the A. O. Smith Combined Executive Incentive Compensation Plan which was originally approved by shareholders in 2002. The plan provides for the issuance of 1,250,000 stock options, restricted stock or share units. Stock options are issued at exercise prices equal to the fair value of Common Stock on the date of grant. Additionally, any shares that would have been available for stock options, restricted stock or share units under the predecessor plan, if that plan was in effect, will be available for granting of share based awards under the plan. The stock options granted in the six month periods ended June 30, 2007 and 2006, become exercisable three years from the date of grant. For active employees, all options granted in 2007 and 2006 expire ten years after date of grant. The number of shares available for granting of options or share units at June 30, 2007, was 1,266,088. Upon stock option exercise, restricted stock grant, or share unit vesting, shares are issued from Treasury stock.

Total stock based compensation cost recognized in the three month periods ended June 30, 2007 and 2006 was \$1.0 million and \$0.9 million, respectively. Total stock based compensation cost recognized in the six month periods ended June 30, 2007 and 2006 was \$2.9 million and \$1.8 million, respectively.

Stock Options

Stock option compensation cost in the three month periods ended June 30, 2007 and 2006 was \$0.3 million and \$0.2 million, respectively. Stock option compensation cost recognized in the six month periods ended June 30, 2007 and 2006 was \$1.1 million and \$0.5 million, respectively. Stock option expense recognized in the six month period ended June 30, 2007, included \$0.5 million of expense associated with the accelerated vesting of stock option awards for certain executives who either retired or were retirement eligible in the first quarter of 2007.

Table of Contents**10. Stock-Based Compensation (continued)**

Changes in option shares, all of which are Common Stock, were as follows for the six months ended June 30, 2007:

	Weighted-Avg. Per Share Exercise Price	Six Months Ended June 30, 2007	Average Remaining Contractual Life	Aggregate Intrinsic Value (dollars in millions)
Outstanding at January 1, 2007	\$ 22.98	1,443,900		
Granted	38.87	164,800		
Exercised	20.72	(189,050)		
Outstanding at June 30, 2007	24.79	1,419,650	6 years	\$ 21.4
Exercisable at June 30, 2007	\$ 22.14	1,091,517	5 years	\$ 19.4

The weighted-average fair value per option at the date of grant during the six months ended June 30, 2007 and 2006, using the Black-Scholes option-pricing model, was \$14.43 and \$12.94, respectively. Assumptions were as follows:

	Six Months Ended June 30,	
	2007	2006
Expected life (years)	6.5	6.4
Risk-free interest rate	4.7%	4.4%
Dividend yield	1.8%	2.2%
Expected volatility	36.0%	38.0%

The expected life is based on historical exercise behavior and the projected exercise of unexercised stock options. The risk free interest rate is based on the U.S. Treasury yield curve in effect on the date of grant for the respective expected life of the option. The expected dividend yield is based on the expected annual dividends divided by the grant date market value of our common stock. The expected volatility is based on the historical volatility of our common stock.

Restricted Stock and Share Units

Participants may also be awarded shares of restricted stock or share units under the plan. The company granted 68,600 and 21,000 shares of share units under the plan in the six month periods ended June 30, 2007 and 2006, respectively. The share units were valued at \$2.7 million and \$0.8 million at the date of issuance in 2007 and 2006, respectively, based on the company's stock price at the date of grant and will be recognized as compensation expense ratably over the three-year vesting period. Restricted stock and share unit compensation expense of \$0.7 million and \$0.7 million was recognized in the three month periods ended June 30, 2007 and 2006, respectively. Restricted stock and share unit compensation expense of \$1.8 million and \$1.3 million was recognized in the six month period ended June 30, 2007 and 2006, respectively. Share based compensation expense recognized in the six month period ended June 30, 2007 included \$0.6 million of expense associated with the accelerated vesting of restricted stock and share unit awards for certain executives who either retired or were retirement eligible in the first quarter of 2007.

Table of Contents**10. Stock-Based Compensation (continued)**

A summary of restricted stock and share unit activity under the plan is as follows:

	Number of Units	Weighted-Average Grant Date Value
Outstanding at January 1, 2007	267,835	\$ 28.03
Granted	68,600	38.87
Vested	(14,835)	32.02
Outstanding at June 30, 2007	321,600	\$ 30.16

11. Pensions (dollars in millions)

The following table presents the components of the company's net pension expense.

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Service cost	\$ 2.5	\$ 3.0	\$ 5.2	\$ 5.4
Interest cost	11.9	11.2	23.8	22.9
Expected return on plan assets	(15.2)	(15.0)	(30.1)	(29.9)
Amortization of net unrecognized loss	2.9	3.7	6.4	7.3
Amortization of prior service cost	0.2	0.2	0.3	0.3
Defined benefit plan expense	\$ 2.3	\$ 3.1	\$ 5.6	\$ 6.0

The company made contributions of \$6.0 million and \$9.0 million on June 1, 2007 and July 2, 2007, respectively. The company does not expect to make any further contributions in 2007.

Table of Contents**12. Operations by Segment (dollars in millions)**

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Net sales				
Water Products	\$ 354.2	\$ 342.9	\$ 709.7	\$ 574.3
Electrical Products	258.5	254.1	481.5	483.3
Inter-segment sales	(1.2)	(2.5)	(2.5)	(3.9)
	\$ 611.5	\$ 594.5	\$ 1,188.7	\$ 1,053.7
Operating earnings				
Water Products	\$ 37.0	\$ 33.2	\$ 71.2	\$ 59.1
Electrical Products ⁽¹⁾	18.2	16.6	28.4	30.1
Inter-segment earnings		(0.1)	(0.1)	(0.1)
	55.2	49.7	99.5	89.1
Corporate expenses ⁽²⁾	(11.9)	(6.0)	(23.1)	(20.9)
Interest expense	(7.0)	(7.5)	(13.8)	(10.5)
Earnings before income taxes	36.3	36.2	62.6	57.7
Provision for income taxes	(9.3)	(11.3)	(16.1)	(17.3)
Earnings from continuing operations	\$ 27.0	\$ 24.9	\$ 46.5	\$ 40.4
⁽¹⁾ reflects pre-tax restructuring and other charges of:	\$ 0.1	\$ 1.8	\$ 1.3	\$ 3.0
⁽²⁾ reflects pre-tax restructuring and other charges of:	\$ 1.5	\$	\$ 1.5	\$ 0.3

13. Restructuring and Other Charges*Electrical Products Restructuring and Other Costs*

In 2007, \$0.1 million and \$1.3 million of expense was recognized in the three and six month periods ended June 30, 2007 for domestic repositioning activities. During the year ended December 31, 2006, \$7.3 million of expense was recognized for the continuation of domestic repositioning activities. Additionally, a pretax charge of \$1.6 million was recognized in 2006 for the closure of the Taizhou, China plant in the fourth quarter of 2006.

The following table presents an analysis of the company's Electrical Products restructuring reserve as of and for the six months ended June 30, 2007 (dollars in millions):

	Severance Costs	Asset Impairment	Total
Balance at December 31, 2006	\$ 1.5	\$ 5.5	\$ 7.0
Expense recognized	0.6	0.7	1.3
Cash payments	(2.0)		(2.0)
Asset disposal/write-down		(6.2)	(6.2)
Balance at June 30, 2007	\$ 0.1	\$	\$ 0.1

Other Charges

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The company recognized \$1.5 million in expense in the three month period ended June 30, 2007 to cover certain costs primarily related to previously owned real estate.

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14. Income Taxes

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB No. 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No 109, Accounting for Income Taxes. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The provisions of FIN 48 were adopted by the Company on January 1, 2007. There was no cumulative effect of adoption recorded to retained earnings. The amount of unrecognized tax benefits at adoption was \$7.6 million of which \$7.0 million would impact the effective tax rate if recognized. Included in the January 1, 2007 unrecognized tax benefits is \$2.8 million related to tax positions for which it is possible that the total amount could significantly change in the next twelve months. This amount relates to the settlement of completed audits and the closing of open tax years. The Company recognizes potential interest and penalties related to unrecognized tax benefits as a component of tax expense. At January 1, 2007, the Company had \$0.8 million accrued as a long term liability for potential interest and penalties. As of January 2007, the Company is subject to U.S. Federal income tax examinations for the tax years 2002 - 2006, and to non-U.S. income tax examinations for the tax years 2001- 2006. In addition, the Company is subject to state and local income tax examinations for the tax years 2000 - 2006.

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PART I - FINANCIAL INFORMATION

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

SECOND QUARTER AND FIRST SIX MONTHS OF 2007 COMPARED TO 2006

Sales increased to a record \$611.5 million, an increase of \$17.0 million from sales of \$594.5 million in the second quarter of 2006. Sales for the first half of 2007 were \$1,188.7 million or \$135.0 million higher than sales of \$1,053.7 million in the same period last year. Continued strength in China and improved sales in global commercial markets accounted for most of the second quarter increase. The increase in first half sales was impacted by \$128.2 million in 2007 first quarter sales from GSW, Inc. (GSW), a Canadian water heater company acquired on April 3, 2006.

Our gross profit margin in the second quarter of 2007 increased to 22.0 percent from 21.3 percent in the same period last year. The gross profit margin for the first half of 2007 was 21.7 percent compared with 21.4 percent in the first six months of 2006. The improvement in margins was due mostly to increased sales of higher margin products.

Selling, general and administrative expenses (SG&A) in the second quarter and first half of 2007 were higher than the same periods in 2006 by \$4.5 million and \$24.3 million, respectively. The increase in SG&A in the second quarter occurred in our water heater business and was due mostly to higher selling and advertising costs in support of increased sales. The increase in the first half SG&A was impacted by the aforementioned causes and included \$15.2 million of first quarter 2007 SG&A attributable to the GSW acquisition.

Interest expense for the second quarter was \$7.0 million or \$0.5 million lower than the second quarter of 2006 due to lower debt levels in the second quarter of 2007. Interest expense for the first half of 2007 was \$13.8 million or \$3.3 million higher than the comparable period in 2006 due to acquisition related financing costs incurred for the entire first half of 2007 versus only the second quarter in 2006.

We have significant pension benefit costs and credits that are developed from actuarial valuations. The valuations reflect key assumptions regarding, among other things, discount rates, expected return on assets, retirement ages, and years of service. Consideration is given to current market conditions, including changes in interest rates in making these assumptions. Our assumption for the expected rate of return on plan assets is 8.75 percent in 2007, unchanged from 2006. The discount rate used to determine net periodic pension costs increased from 5.75 percent in 2006 to 5.9 percent in 2007. Pension expense in the second quarter of 2007 was \$2.3 million or \$0.8 million lower than the second quarter of 2006. Pension expense for the first half of 2007 was \$5.6 million and compares to \$6.0 million in the first half of 2006. Total pension expense for 2007 is expected to be \$11.2 million. Our pension costs are reflected in cost of products sold and selling, general and administrative expense.

Our effective tax rate for the second quarter of 2007 was 25.7 percent and compares to a 31.2 percent rate in the same period last year. The effective tax rate for the first half of 2007 was 25.7 percent compared to 30.0 percent in the same period of 2006. The projected full year tax rate for 2007 of 25.7 percent compares to the actual 2006 full year rate of 27.3 percent. The lower rates in 2007 resulted from proportionately higher income from foreign operations in China where tax rates are significantly lower than our U.S. operations and incremental benefit from the research tax credit.

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Net earnings in the second quarter of 2007 were \$27.0 million or \$0.87 per share compared with \$25.1 million or \$0.81 per share in the second quarter of 2006. Second quarter net earnings in 2006 included \$0.2 million or \$0.01 per share for discontinued operations related to the Building Products business of GSW which was sold in the fourth quarter of 2006. Also included in the second quarter of 2006 was a \$3.2 million after tax foreign currency gain associated with the GSW acquisition. This gain, which was recorded as other income, offset a first quarter loss on foreign currency contracts of approximately the same amount. Our net earnings for the first six months of 2007 were \$46.5 million or \$1.50 per share and compared to net earnings of \$40.6 million or \$1.31 per share.

Water Products

Second quarter sales for our Water Products segment were \$354.2 million in 2007 or \$11.3 million higher than the second quarter of 2006 reflecting higher volumes for commercial water heaters and higher sales at our China water heater facility. First half sales in 2007 were \$709.7 million or \$135.4 million higher than the same period in 2006. The higher sales were due to an additional three months of GSW sales in 2007 and increased volume in China.

Operating earnings for our Water Products segment were \$37.0 million in the second quarter of 2007 or \$3.8 million higher than earnings of \$33.2 million in the same quarter of 2006. The increased earnings resulted from higher sales of higher margin products. First half operating earnings in 2007 were \$71.2 million or \$12.1 million higher than earnings of \$59.1 million in the same period of 2006. The higher earnings in 2007 were due primarily to an additional three months of GSW earnings.

Electrical Products

Second quarter sales for our Electrical Products segment were \$258.5 million, slightly higher than 2006 second quarter sales of \$254.1 million. The increase in sales was due mostly to higher volume for distribution and commercial hermetic motor products and improved pricing to offset higher raw material costs, which more than offset lower sales for the residential hermetic, pump and home appliance markets. Year-to-date sales for this segment were \$481.5 million, slightly lower than sales of \$483.3 million in the first half of 2006.

Operating earnings for our Electrical Products segment in the second quarter were \$18.2 million or 9.6 percent higher than 2006 second quarter earnings of \$16.6 million. The increase in earnings was due to lower restructuring expense and savings from repositioning and cost reduction activities that offset the impact of lower volume. First half operating earnings in 2007 were \$28.4 million and were slightly lower than 2006 first half earnings of \$30.1 million as lower volume was only partially offset by lower restructuring expense and savings from repositioning and cost reduction activities.

Outlook

We believe the domestic housing market will remain weak for the foreseeable future. This weakness has partially offset the strength of our commercial and Chinese businesses as well as the positive impact of the company's ongoing cost reduction activities.

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Nonetheless, on the strength of our performance through the first six months of the year and continued confidence in our plan we narrowed and raised our earnings forecast for 2007 to a range of \$2.85 to \$3.00 per share.

Liquidity & Capital Resources

Our working capital was \$375.3 million at June 30, 2007, \$52.6 million greater than at December 31, 2006. The higher working capital investment was primarily due to sales related increases in receivables at both of our businesses. Cash provided by operations during the first half of 2007 was \$38.3 million compared with \$31.3 million during the same period last year as a result of higher earnings and depreciation and amortization. For the total year 2007, we expect cash provided by operations to be approximately \$150 million.

Our capital expenditures totaled \$28.3 million during the first six months, compared with \$24.8 million during the same period last year. We are projecting total 2007 capital expenditures to be between \$75 and \$80 million and our depreciation and amortization expense projections for 2007 to be approximately \$70 million. Included in the capital spending plan for the second half of this year is approximately \$5 million associated with the previously announced plant expansion at our Nanjing, China water products company operation. We believe that our present facilities and planned capital expenditures are sufficient to provide adequate capacity for our operations in 2007.

In February 2006, we completed a \$425 million multi-currency credit facility with ten banks. The facility expires in February 2011, and it has an accordion provision which allows it to be increased up to \$500 million. Borrowing rates under the facility are determined by our leverage ratio. The facility requires us to maintain two financial covenants, and we were in compliance with the covenants at the end of June.

Borrowing on our bank credit lines and commercial paper borrowings are supported by the credit facility and are classified as long-term debt due to the long term nature of the credit facility.

Our total debt increased \$14.4 million from \$439.0 million at December 31, 2006 to \$453.4 million at June 30, 2007. Our leverage, as measured by the ratio of total debt to total capitalization, was 38.5% at the end of the first half of 2007 down slightly from 39.1% at the end of last year. At June 30, 2007, we had available borrowing capacity of \$149.6 million. We believe that the combination of available borrowing capacity and operating cash flow will provide sufficient funds to finance our existing operations for the foreseeable future.

GSW, (acquired last year) operated a captive insurance company (Captive) to provide product liability and general liability insurance to its subsidiary, American Water Heater Company. The reinsurance company restricts the amount of capital which must be maintained by the Captive. At June 30, 2007, the restricted amount of \$38.0 million is invested in short-term securities and is included in other non-current assets on our balance sheet.

During the second quarter, we repurchased 135,000 shares of our common stock under a previously announced board authorized program to repurchase 1 million shares. Through June 30, 2007 we have repurchased 135,000 shares at an average cost of \$38.78 per share.

On July 10, 2007, our board of directors increased the regular quarterly dividend to \$0.18 per share on our common stock and Class A common stock, an increase of 6%. The dividend is payable on August 15, 2007 to shareholders of record on July 31, 2007.

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Critical Accounting Policies

The preparation of our consolidated financial statements is in conformity with accounting principles generally accepted in the United States which requires the use of estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The critical accounting policies that we believe could have the most significant effect on our reported results or require complex judgment by management are contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2006. We believe that at June 30, 2007 there has been no material change to this information.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48 (FIN 48) Accounting for Uncertain Income Taxes - an interpretation of FASB No. 109. We cannot make a reasonably reliable estimate as to the period of settlement of tax liabilities recorded upon the adoption of FIN 48. Accordingly, no changes have been recognized in our summary of contractual obligations presented in our Form 10-K for the year ended December 31, 2006. Please see Note 14 of Notes to Condensed Consolidated Financial Statements for further discussion.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for us beginning in 2008. We are assessing the potential impact that the adoption of SFAS No. 157 will have on our consolidated financial condition, results of operations or cash flows.

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ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As is more fully described in our annual report on Form 10-K for the year ended December 31, 2006, we are exposed to various types of market risks, primarily currency and certain commodities. Our quantitative and qualitative disclosures about market risk have not materially changed since that report was filed. We monitor our risks in these areas on a continuous basis and generally enter into forward and futures contracts to minimize these exposures for periods of less than one year. Our company does not engage in speculation in our derivative strategies. It is important to note that gains and losses from our forward and futures contract activities are offset by changes in the underlying costs of the transactions being hedged.

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), our management evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the quarter ended June 30, 2007. Based upon their evaluation of these disclosures controls and procedures, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures were effective as of the end of the quarter ended June 30, 2007 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Forward Looking Statements

This filing contains statements that we believe are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of words such as may, will, expect, intend, estimate, anticipate, believe, forecast, or words of similar meaning. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this filing. Factors that could cause such a variance include the following: significant volatility in raw material prices; competitive pressures on the company's businesses; instability in the company's electric motor and water products market segments; weakening in housing construction; or adverse changes in general economic conditions.

Forward-looking statements included in this filing are made only as of the date of this filing, and we are under no obligation to update these statements to reflect subsequent events or circumstances. All subsequent written and oral forward-looking statements attributed to the company, or persons acting on its behalf, are qualified entirely by these cautionary statements.

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There have been no material changes in the legal and environmental matters discussed in Part 1, Item 3 and Note 13 of the Notes to Consolidated Financial Statements in the company's Form 10-K Report for the year ended December 31, 2006, which is incorporated herein by reference.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On February 13, 2007, the company's board of directors approved a stock repurchase program authorizing the purchase of up to one million shares of the company's common stock. This stock repurchase authorization remains effective until terminated by the company's board of directors. The following table sets forth the number of shares of common stock the company repurchased during the second quarter of 2007.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that may Yet Be Purchased Under the Plans or Programs
April 11- April 30, 2007	25,000	38.47	25,000	975,000
May 1 - May 31, 2007	110,000	38.90	110,000	865,000
June 1 - June 30, 2007				865,000
Total	135,000		135,000	

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the company's annual meeting of stockholders on April 9, 2007 the following items were voted on: the election of directors, the approval of the adoption of the A. O. Smith Combined Incentive Compensation Plan and the reservation of 1,250,000 shares of Common Stock under the Plan and the ratification of Ernst & Young LLP as the independent registered public accounting firm of the company for 2007.

1. Election of Directors

Class A Common Stock Directors	Votes For	Votes Withheld
Ronald D. Brown	8,232,223	1,084
William F. Buehler	8,232,223	1,084
Paul W. Jones	8,232,043	1,264
Bruce M. Smith	8,223,619	9,688
Mark D. Smith	8,226,073	7,234
Gene C. Wulf	8,232,223	1,084

Common Stock Directors	Votes For	Votes Withheld
William P. Greubel	18,374,091	1,610,743
Robert J. O Toole	18,138,426	1,846,408
Idelle K. Wolf	18,259,626	1,725,208

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2. Approval of the Adoption of the A. O. Smith Combined Incentive Compensation Plan and the Reservation of 1,250,000 Shares of Common Stock under the Plan

	Broker		
Combined Class Vote	Votes For	Votes Against	Abstentions
Class A Common Stock (1 vote) and Common Stock (1/10 th vote)	9,708,283	187,369	43,472

3. Ratification of Ernst & Young LLP as Independent Registered Public Accounting Firm

	Broker		
Combined Class Vote	Votes For	Votes Against	Abstentions
Class A Common Stock (1 vote) and Common Stock (1/10 th vote)	10,171,337	58,640	1,813

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

Refer to the Exhibit Index on page 23 of this report.

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SIGNATURES

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

A. O. SMITH CORPORATION

August 1, 2007

/s/ John J. Kita
John J. Kita
Senior Vice President

Corporate Finance & Controller

August 1, 2007

/s/ Terry M. Murphy
Terry M. Murphy
Executive Vice President

and Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit

Number	Description
10.1	A. O. Smith Combined Incentive Compensation Plan (incorporated by reference to Exhibit A to A. O. Smith Corporation's definitive proxy statement on Schedule 14A for the A. O. Smith Corporation Annual Meeting of Stockholders held April 9, 2007 (File No. 1-475)).
31.1	Certification of Periodic Report by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Periodic Report by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32	Written Statement of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350.