

ATHENAHEALTH INC
Form 10-Q
August 06, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from _____ to _____

**Commission File Number 001-33689
athenahealth, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

04-3387530

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

311 Arsenal Street, Watertown, Massachusetts

02472

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code 617-402-1000

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 5, 2009, there were 33,585,554 shares of the registrant's \$0.01 par value common stock outstanding.

athenahealth, Inc.
FORM 10-Q
INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets at June 30, 2009, and December 31, 2008</u>	1
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009 and 2008</u>	2
<u>Condensed Consolidated Statements of Cash Flows for six months ended June 30, 2009 and 2008</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	21
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	22
<u>Item 1A. Risk Factors</u>	22
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
<u>Item 3. Defaults Upon Senior Securities</u>	23
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	23
<u>Item 5. Other Information</u>	23
<u>Item 6. Exhibits</u>	23
<u>SIGNATURES</u>	25
Index to Exhibits	

ii

Ex-10.2 Deed of Leave by and Between Athenahealth Technology Private Limited and M/S RMZ Infotech Private Limited dated as of April 28, 2009

Ex-10.3 Schedule Number 3003078500 v. 1.0 for Professional services Governed by the Master Agreement for U.S. Availability Services between SunGard Availability Services LP and athenahealth, Inc.

Ex-31.1 Rule 13a-14(a) or 15d-14 Certification of Chief Executive Officer

Ex-31.2 Rule 13a-14(a) or 15d-14 Certification of Chief Financial Officer

Ex-32.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Exchange Act rules 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements.****athenahealth, Inc.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited, in thousands, except per-share amounts)**

	June 30,2009	December 31,2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,320	\$ 28,933
Short-term investments	72,984	58,061
Accounts receivable net	23,680	23,236
Deferred tax assets	5,844	8,499
Prepaid expenses and other current assets	4,517	3,624
Total current assets	130,345	122,353
Property and equipment net	22,420	20,871
Restricted cash	1,516	1,848
Software development costs net	2,054	1,879
Purchased intangibles net	1,766	1,925
Goodwill	5,018	4,887
Deferred tax assets	8,061	7,997
Other assets	630	662
Total assets	\$ 171,810	\$ 162,422
Liabilities & Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 2,684	\$ 2,038
Accounts payable	642	803
Accrued compensation	10,065	10,154
Accrued expenses	5,834	7,442
Deferred revenue	7,104	6,945
Interest rate derivative liability	381	881
Current portion of deferred rent	1,135	1,144
Total current liabilities	27,845	29,407
Deferred rent, net of current portion	8,128	8,662
Debt and capital lease obligations, net of current portion	8,779	8,378
Total liabilities	44,752	46,447
Commitments and contingencies (note 11)		
Stockholders' equity:		

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Preferred stock, \$0.01 par value: 5,000 shares authorized; no shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively

Common stock, \$0.01 par value: 125,000 shares authorized; 34,837 shares issued, and 33,556 shares outstanding at June 30, 2009; 34,645 shares issued and 33,367 shares outstanding at December 31, 2008.

	349	346
Additional paid-in capital	162,221	156,303
Treasury stock, at cost	(1,200)	(1,200)
Accumulated other comprehensive income	133	338
Accumulated deficit	(34,445)	(39,812)
Total stockholders' equity	127,058	115,975
Total liabilities and stockholders' equity	\$ 171,810	\$ 162,422

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

athenahealth, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per-share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue:				
Business services	\$ 44,429	\$ 31,190	\$ 84,324	\$ 59,079
Implementation and other	2,290	1,783	4,494	3,649
Total revenue	46,719	32,973	88,818	62,728
Expense:				
Direct operating	19,160	14,076	37,458	26,863
Selling and marketing	8,888	5,364	15,887	10,033
Research and development	3,439	2,596	6,620	4,942
General and administrative	8,394	6,580	16,595	13,785
Depreciation and amortization	1,798	1,589	3,437	3,030
Total expense	41,679	30,205	79,997	58,653
Operating income	5,040	2,768	8,821	4,075
Other income (expense):				
Interest income	320	396	722	1,105
Interest expense	(283)	(105)	(457)	(128)
Gain on interest rate derivative contract	308		500	
Other income	79	31	115	49
Total other income	424	322	880	1,026
Income before income taxes	5,464	3,090	9,701	5,101
Income tax provision	(2,435)	(311)	(4,334)	(493)
Net income	\$ 3,029	\$ 2,779	\$ 5,367	\$ 4,608
Net income per share Basic	\$ 0.09	\$ 0.09	\$ 0.16	\$ 0.14
Net income per share Diluted	\$ 0.09	\$ 0.08	\$ 0.15	\$ 0.13
Weighted average shares used in computing net income per share:				
Basic	33,527	32,485	33,472	32,414
Diluted	34,822	34,730	34,818	34,758

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

athenahealth, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,367	\$ 4,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,596	3,030
Amortization of discounts on investments	(442)	(221)
Provision for uncollectible accounts	168	214
Deferred income taxes	3,937	
Excess tax benefit from stock-based awards	(1,231)	
Gain on interest rate derivative contract	(500)	
Stock compensation expense	3,992	2,401
Loss on disposal of property and equipment		(8)
Changes in operating assets and liabilities:		
Accounts receivable	(612)	(3,466)
Prepaid expenses and other current assets	(1,289)	385
Accounts payable	800	34
Accrued expenses	(1,431)	3,737
Deferred revenue	159	872
Deferred rent	(543)	(887)
Other long-term assets	32	9
 Net cash from operating activities	 12,003	 10,708
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized software development costs	(1,060)	(602)
Purchases of property and equipment	(5,061)	(9,622)
Proceeds from sales and maturities of investments	37,000	
Purchases of short-term investments	(51,770)	(49,154)
Proceeds from sales of equipment		12
Purchases of investment in unconsolidated company		(250)
Decrease in restricted cash	332	
 Net cash (from) investing activities	 (20,559)	 (59,616)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock under stock plans	697	698
Payments on long-term debt and capital lease obligations	(2,319)	(271)
Proceeds from long-term debt and capital lease obligations	3,366	1,214
Excess tax benefit from stock-based awards	1,231	

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Net cash from financing activities	2,975	1,641
Effects of exchange rate changes on cash and cash equivalents	(32)	(22)
Net (decrease) in cash and cash equivalents	(5,613)	(47,289)
Cash and cash equivalents at beginning of period	28,933	71,891
Cash and cash equivalents at end of period	\$ 23,320	\$ 24,602
Supplemental disclosures of non-cash items		
Property and equipment recorded in accounts payables and accrued expenses	\$ 37	\$ 7
Supplemental disclosures of cash flow information - Cash paid for interest	\$ 317	\$ 133
Supplemental disclosures of cash flow information - Cash paid for taxes	\$ 514	\$

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**athenahealth, Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited amounts in thousands, except per-share amounts)****1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial reporting and as required by Regulation S-X, Rule 10-01. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including only adjustments that are normal and recurring) considered necessary for a fair presentation of the interim financial information have been included. When preparing financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures at the date of the financial statements. Actual results could differ from those estimates. Additionally, operating results for the three and six months ended June 30, 2009, are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2009.

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of items of a normal and recurring nature) necessary to present fairly the financial position as of June 30, 2009, and the results of operations for the three-month and six-month periods ended June 30, 2009 and 2008 and cash flows for the six-month periods ended June 30, 2009 and 2008. The results of operations for the six-month period ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated to the date of issuance of these financial statements on August 6, 2009. The accompanying unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008, included in our Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on March 2, 2009.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2008, the Financial Accounting Standards Board (FASB) issued EITF 07-5, *Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock* (EITF 07-5). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 was effective on January 1, 2009. The adoption of EITF 07-5 did not impact our consolidated financial position, results of operations, and cash flows.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which requires disclosure about fair value of financial instruments for interim reporting periods as well as in annual financial statements. The effective date for FSP No. FAS 107-1 and APB 28-1 is for interim periods ending after June 15, 2009 and accordingly the Company has adopted the provisions of this FSP as of June 30, 2009. Although the adoption of FSP FAS 107-1 and APB 28-1 did not materially impact our consolidated financial position, results of operations, or cash flows, the Company is now required to provide additional disclosures, which are included in Note 6.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165 (SFAS No. 165), *Subsequent Events*. SFAS No. 165 defines the subsequent events or transactions period, circumstances under which such events or transactions should be recognized, and disclosures regarding subsequent events or transactions. SFAS No. 165 is effective for interim or annual periods ending after June 15, 2009. The Company has adopted the provisions of SFAS No. 165 as of June 30, 2009.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when an asset or

liability experienced a significant decrease in volume and activity in relation to their normal market activity. Additionally, this FSP provides guidance on identifying circumstances that may indicate if a transaction is not orderly. Retrospective application of this FSP to a prior interim or annual reporting period is not permitted. The adoption of this FSP did not have a material impact on the Company's consolidated financial position, results of operations, and cash flows.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP revises guidance for determining how and when to recognize other-than-temporary impairments of debt securities for which changes in fair value are not regularly recognized in earnings and the financial statement presentation of such impairments. This FSP also expands and increases the frequency of disclosures related to other-than-temporary impairments of both

Table of Contents**athenahealth, Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited amounts in thousands, except per-share amounts)**

debt and equity securities. The adoption of this FSP did not have a material impact on the Company's consolidated financial position, results of operations, and cash flows.

3. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period under the treasury stock method. Potentially dilutive securities include stock options and warrants. Under the treasury stock method, dilutive securities are assumed to be exercised at the beginning of the periods and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Securities are excluded from the computations of diluted net income per share if their effect would be antidilutive to earnings per share.

The following table reconciles the weighted average shares outstanding for basic and diluted net income per share for the periods indicated.

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net income	\$ 3,029	\$ 2,779	\$ 5,367	\$ 4,608
Weighted average shares used in computing basic net income per share	33,527	32,485	33,472	32,414
Net income per share basic	\$ 0.09	\$ 0.09	\$ 0.16	\$ 0.14
Net income	\$ 3,029	\$ 2,779	\$ 5,367	\$ 4,608
Weighted average shares used in computing basic net income per share	33,527	32,485	33,472	32,414
Effect of dilutive securities	1,295	2,245	1,346	2,344
Weighted average shares used in computing diluted net income per share	34,822	34,730	34,818	34,758
Net income per share diluted	\$ 0.09	\$ 0.08	\$ 0.15	\$ 0.13

The computation of diluted net income per share does not include 2,120 options for the three and six months ended June 30, 2009, because their inclusion would have an antidilutive effect on net income per share. The computation of diluted net income per share does not include 1,174 options for the three and six months ended June 30, 2008, because their inclusion would have an antidilutive effect on net income per share.

4. COMPREHENSIVE INCOME

Comprehensive income was as follows for the periods indicated:

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	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net income	\$ 3,029	\$ 2,779	\$ 5,367	\$ 4,608
Unrealized holding (loss) gain on available-for-sale investments, net of tax	(114)	(12)	(175)	71
Foreign currency translation adjustment, net of tax	(34)	(15)	(30)	(23)
 Total comprehensive income	 \$ 2,881	 \$ 2,752	 \$ 5,162	 \$ 4,656

5

Table of Contents**athenahealth, Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited amounts in thousands, except per-share amounts)****5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

At June 30, 2009 and December 31, 2008, the carrying amounts of cash and cash equivalents, restricted cash, investments, receivables, accounts payable, and accrued expenses approximated their estimated fair values because of their short term nature of these financial instruments or because they are carried at fair value in the case of marketable securities or derivatives. All highly liquid debt instruments purchased with a maturity of three months or less at the date of acquisition are included in cash and cash equivalents. Included in cash and cash equivalents at June 30, 2009 and December 31, 2008 are money market fund investments of \$10,920 and \$23,610 which are reported at fair value. The fair value of these investments was determined by using quoted prices for identical investments in active markets which are considered to be Level 1 inputs under SFAS No. 157, Fair Value Measurements.

The carrying amounts of the Company's debt obligations approximate fair value based upon our best estimate of interest rates that would be available to the Company for similar debt obligations. The estimated fair value of our long-term debt was determined using quoted market prices and other inputs that were derived from available market information and may not be representative of actual values that could have been or will be realized in the future.

The following table presents information about the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2009, and indicates the fair value hierarchy of the valuation techniques the Company's utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities and fair values determined by Level 2 inputs utilize quoted prices (unadjusted) in inactive markets for identical assets or liabilities obtained from readily available pricing sources for comparable instruments. The fair values determined by Level 3 inputs are any assets or liabilities unobservable values which are supported by little or no market activity. The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis in accordance with SFAS 157 as of June 30, 2009:

	Fair Value Measurements At June 30, 2009,			
	Level 1	Using Level 2	Level 3	Total
Cash and cash equivalents:				
Money market	\$ 10,920	\$	\$	\$ 10,920
Available-for-sale investments:				
Commerical paper		19,988		19,988
U.S. government backed securities		52,996		52,996
Interest rate swap derivative contract		(381)		(381)
Total short-term investments	\$ 10,920	\$ 72,603	\$	\$ 83,523

U.S. government backed securities and commercial paper are valued using a market approach based upon the quoted market prices of identical instruments when available or other observable inputs such as trading prices of identical instruments in inactive markets or similar securities. The interest rate swap derivative is valued using observable inputs at the reporting date.

6. INVESTMENTS

The summary of available-for-sale securities at June 30, 2009, is as follows:

Amortized Cost	Gross Unrealized Gains	Fair Value
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Commercial paper	\$	19,887	\$	101	\$	19,988
U.S. government backed securities		52,910		86		52,996
Total		72,797		187		72,984

The summary of available-for-sale securities at December 31, 2008, is as follows:

	Amortized Cost	Gross Unrealized Gains	Fair Value
Commercial paper	\$ 16,487	\$ 88	\$ 16,575
U.S. government backed securities	41,098	388	41,486
Total	57,585	476	58,061

Table of Contents

athenahealth, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited amounts in thousands, except per-share amounts)

Scheduled maturity dates of U.S. government backed securities and commercial paper as of June 30, 2009, were within one year and therefore investments were classified as short-term. There were no realized gains and losses on sales of these investments for the periods presented. Unrealized gains and losses are included in other accumulated comprehensive income net of tax.

7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The summary of outstanding debt and capital lease obligations is as follows:

	As of June 30,	As of December 31,
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