

ATHENAHEALTH INC  
Form 10-Q  
November 09, 2018  
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 September 30, 2018

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 02472

Watertown, Massachusetts

(Address of principal executive offices) (Zip Code)

617-402-1000

Registrant's telephone number, including area code

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At November 7, 2018, the registrant had 40,608,362 shares of common stock, par value \$0.01 per share, outstanding.

Table of Contents

INDEX

	PART I – FINANCIAL INFORMATION	Page
Item 1.	<u>Condensed Consolidated Financial Statements (unaudited)</u>	<u>1</u>
	<u>Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2018 and 2017</u>	<u>1</u>
	<u>Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017</u>	<u>2</u>
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</u>	<u>3</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>4</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>12</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>18</u>
Item 4.	<u>Controls and Procedures</u>	<u>18</u>
	PART II – OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	<u>19</u>
Item 1A.	<u>Risk Factors</u>	<u>19</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>19</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>19</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>19</u>
Item 5.	<u>Other Information</u>	<u>19</u>
Item 6.	<u>Exhibits</u>	<u>20</u>
	<u>SIGNATURES</u>	<u>21</u>

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (unaudited)

athenahealth, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited, amounts in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 <sup>(1)</sup>	2018	2017 <sup>(1)</sup>
Revenue	\$329.5	\$304.6	\$982.2	\$891.1
Cost of revenue <sup>(2)</sup>	154.4	144.0	460.4	432.2
Gross profit	175.1	160.6	521.8	458.9
Other operating expenses:				
Selling and marketing	47.6	61.8	146.2	192.5
Research and development <sup>(2)</sup>	50.9	44.8	147.5	130.0
General and administrative	38.4	35.4	104.7	104.5
Total other operating expenses	136.9	142.0	398.4	427.0
Operating income	38.2	18.6	123.4	31.9
Other expense	(1.8 )	(1.4 )	(6.8 )	(4.3 )
Income before income tax provision	36.4	17.2	116.6	27.6
Income tax provision	10.0	4.2	22.7	6.1
Net income	\$26.4	\$13.0	\$93.9	\$21.5
Foreign currency translation adjustment	(0.7 )	(0.1 )	(1.5 )	0.3
Comprehensive income	\$25.7	\$12.9	\$92.4	\$21.8
Net income per share – Basic	\$0.65	\$0.33	\$2.32	\$0.54
Net income per share – Diluted	\$0.64	\$0.32	\$2.28	\$0.53
Weighted average shares used in computing net income per share:				
Basic	40.5	39.9	40.4	39.8
Diluted	41.2	40.7	41.2	40.6

<sup>(1)</sup> Amounts are not restated and represent the amounts recognized under generally accepted accounting principles in place during that period. Refer to Note 1 – Basis of Presentation for discussion on recently adopted accounting pronouncements and a reconciliation to previous presentation.

<sup>(2)</sup> Refer to Note 1 – Basis of Presentation for disclosure of related party amounts.

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

Table of Contents

athenahealth, Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, amounts in millions, except per share amounts)

	September 30, 2018	December 31, 2017 <sup>(1)</sup>
Assets		
Current assets:		
Cash and cash equivalents	\$ 303.4	\$ 165.1
Accounts receivable, net	167.4	169.5
Contract assets	79.9	—
Prepaid expenses and other current assets	63.7	46.8
Total current assets	614.4	381.4
Property and equipment, net	337.0	355.1
Capitalized software costs, net	154.7	139.7
Purchased intangible assets, net	96.6	108.6
Goodwill	281.3	274.4
Deferred tax assets, net	1.1	41.8
Other assets <sup>(2)</sup>	103.9	31.3