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

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

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)*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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.

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $1,417,920,038 based on the closing price on the NASDAQ Global Select Market on June 30, 2011.

At February 14, 2012, the registrant had 35,456,163 shares of common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2011.

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Annual Report on Form 10-K contains forward-looking statements. All statements other than statements of historical fact contained in this Annual Report on Form 10-K are forward-looking statements, including the combination or integration of newly acquired services; expanded sales and marketing efforts; changes in expenses related to operations, selling, marketing, research and development, general and administrative matters, and depreciation and amortization; liquidity issues; additional fundraising; and the expected performance period and estimated term of our client relationships, as well as more general statements regarding our expectations for future financial or operational performance, product and service offerings, regulatory environment, and market trends. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue"; the negative of these terms; or other comparable terminology.

Forward-looking statements are only current predictions and are subject to known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance, or achievements to be materially different from those anticipated by such statements. These factors include, among other things, those listed under "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

Although we believe that the expectations reflected in the forward-looking statements contained in this Annual Report on Form 10-K are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by law, we are under no duty to update or revise any of such forward-looking statements, whether as a result of new information, future events, or otherwise, after the date of this Annual Report on Form 10-K.

Unless otherwise indicated, information contained in this Annual Report on Form 10-K concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity, and market share, is based on information from independent industry analysts and third-party sources (including industry publications, surveys, and forecasts), our internal research, and management estimates. Management estimates are derived from publicly available information released by independent industry analysts and third-party sources, as well as data from our internal research, and are based on assumptions made by us based on such data and our knowledge of such industry and markets, which we believe to be reasonable. None of the sources cited in this Annual Report on Form 10-K has consented to the inclusion of any data from its reports, nor have we sought their consent. Our internal research has not been verified by any independent source, and we have not independently verified any third-party information. While we believe the market position, market opportunity, and market share information included in this Annual Report on Form 10-K is generally reliable, such information is inherently imprecise. In addition, projections, assumptions, and estimates of our future performance and the future performance of the industries in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Risk Factors" in Item 1A of Part I of this Annual Report on Form 10-K and elsewhere in this Annual Report on Form 10-K. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

Item 1. *Business.*

In this Annual Report on Form 10-K, the terms the "Company," "athenahealth," "we," "us," and "our" refer to athenahealth, Inc. and its subsidiaries, Anodyne Health Partners, Inc., athena Point Lookout, LLC, athenahealth MA, Inc., athenahealth Security Corporation, athenahealth Technology Private Limited, and Proxsys LLC, and any subsidiary that may be acquired or formed in the future. We were incorporated in Delaware on August 21, 1997, as Athena Healthcare Incorporated. We changed our name to athenahealth.com, Inc. on March 31, 2000, and to athenahealth, Inc. on November 17, 2000. Our corporate headquarters are located at 311 Arsenal Street, Watertown, Massachusetts, 02472, and our telephone number is (617) 402-1000.

Overview

athenahealth provides business services that help medical care givers collect more revenue and greatly reduce the trouble and inconvenience of their administrative tasks. Through a combination of three distinct but interconnected components — cloud-based software, networked knowledge, and back-office work — athenahealth enables its providers to achieve and sustain financial health while keeping their focus on quality patient care.

Our services are designed to reduce the burden presented by complex billing rules, quality measurement and reporting, clinical documentation and data exchange, patient communication and referrals, and many of the related tasks that distract medical care givers and staff from delivering care. We differentiate our services by regularly deploying updates and improvements to clients via our cloud-based network, athenaNet, requiring no action by the client. Since athenaNet is web-based, our staff can quickly and seamlessly implement our services at a low up-front start-up cost to clients.

Our cloud-based services are currently packaged as four integrated offerings: athenaCollector for revenue cycle management, athenaClinicals for clinical cycle management, athenaCommunicator for patient cycle management, and athenaCoordinator for referral cycle management. Our single-instance platform allows every client to benefit from the collective knowledge of all other clients through our patented billing Rules Engine and clinical Quality Management Engine, collectively called "athenaRules." This powerful, shared knowledge enables our clients to monitor and benchmark their performances against those of peer practices across the network. Our comprehensive business intelligence application, Anodyne Analytics, further supports our clients' goal of financial health by equipping them with data visualization tools and insight into their practice's performance.

The software offered via athenaNet is the primary conduit through which we exchange information among clients, payers, and our staff of experts. Expert knowledge is infused into each service via athenaRules as we work with clients, payers, and other partners to codify rules associated with reimbursement, clinical quality measures, and other factors related to our clients' performance. Each service also benefits from back-office administrative work that we perform on behalf of our clients. We automate these processes whenever possible, but, when automation cannot be implemented, we perform the work ourselves rather than returning it to clients to be completed.

This unique service model of Software, Knowledge, and Work has allowed us to align our success with our clients' performance, creating a continual cycle of improvement and efficiency. We charge clients a percentage of collections in most cases, so our financial results are a direct reflection of our ability to drive revenue for them.

In 2000, we released our first service offering, athenaCollector, and followed with athenaClinicals in 2006. athenaCommunicator, introduced in 2010, represents the integration and rebranding of our first acquisition, Crest Line Technologies, LLC (d.b.a. MedicalMessaging.net). We continued this expansion of our offerings in October, 2009, with our acquisition of Anodyne Health Partners, Inc. ("Anodyne"), the privately held company that developed the Anodyne Analytics service. Then, in August, 2011, to further accelerate the development of our emerging care coordination service, we acquired Proxsys LLC ("Proxsys"), a leading provider of cloud-based care coordination services between physicians and hospitals.

In 2011, we generated revenue of $324.1 million from the sale of our services, compared to $245.5 million in 2010. As of December 31, 2011, there were 32,740 medical providers, including 23,210 physicians, using our athenaCollector service across 46 states and the District of Columbia and 76 medical specialties.

Market Opportunity

The health care industry is complex and fragmented, and is largely served by legacy software systems that do not offer the core competencies of collaboration, flexibility, and interoperability. A disproportionate amount of communication still takes place on paper instead of via automated communications. This combination of

outdated, inflexible systems and paper workflows creates significant costs for medical practices, which suffer sizable administrative work, as well as duplication and errors. By addressing these problems head on, medical care givers can free their staff to focus on the practice of medicine.

While the fee-for-service reimbursement framework is fraught with complexity for medical practices, managed care plans typically are even more complex, creating reimbursement structures that are more complicated than previous methods, with greater responsibility placed on care givers to capture and provide appropriate data to obtain payments. This reality is further complicated by newer, emerging reimbursement models such as Pay-For-Reporting, Pay-For-Performance, and Shared Savings. These programs require care givers to identify programs for which they are eligible, enroll in those programs, identify eligible patients, and record relevant billing and clinical data for each eligible encounter. In addition, care givers may be penalized for non-reporting or non-participation in these programs. Many of these programs also require a much greater focus on care coordination and cost efficiency across multiple care givers .

Practice-based activities required to ensure appropriate payment for services rendered have increased in number and complexity for the following reasons:

- *Legislative reform efforts*. Legislative reform, including the Patient Protection and Affordable Care Act, or PPACA, that was signed into law in March 2010, is expected to drive many fundamental shifts in the health care reimbursement landscape. Millions of additional patients could be required to purchase health insurance coverage, and private payers may have to limit percentages of non-clinical expenses as a portion of their revenues. Payers' abilities to raise insurance premiums will likely also be regulated, forcing them to focus on other ways of improving their financial performance, including new contracting options for physicians and new programs to identify preventable costs. Many of these programs would require the aggregation and exchange of clinical data in order to ensure continuity of care for each patient.
- *Diversity of health benefit plan design*. Health insurers have introduced a wide range of benefit structures, many of which are customized to the unique goals of particular employer groups. This has resulted in an increase in rules regarding who is eligible for health care services, what health care services are eligible for reimbursement, and who is responsible to pay for health care services delivered. It has also resulted in more plans that require a larger portion of patient responsibility, such as High Deductible Health Plans ("HDHP") or plans with little coverage other than negotiated discounts; these increase the burden on practices to manage and pursue receivables directly with the patient.
- *Dynamic nature of health benefit plan design*. Health insurers continually update their reimbursement rules based on ongoing monitoring of consumption patterns, in response to new medical products and procedures, and to address changing employer demands. As these changes are made frequently throughout the year and are often specific to each individual health plan, practices need to be continually aware of this dynamic element of the reimbursement cycle, as it could impact overall reimbursement and specific workflows.
- *Proliferation of new payment models*. New health benefit plans and reimbursement structures have considerably modified the ways in which medical practices are paid. Care-based initiatives like Pay-for-Performance, which provide reimbursement incentives related to the capture and submission of specified clinical information, have dramatically increased the administrative and clinical documentation burden of the medical practice. Shared Savings programs like Accountable Care Organizations, or ACOs, reward care givers for managing care in a cost-efficient way; this requires greater coordination of clinical effort across medical practices and their trading partners. These newer models continue to evolve and grow in both number and complexity.
- *New financial incentives spurring a new wave of EHR purchasing activity* . The federal government has enacted a financial incentive program through the 2009 Health Information Technology for Economic and Clinical Health Act (the "HITECH Act") for care givers who demonstrate "Meaningful Use" of a certified Electronic Health Record ("EHR") technology. While these payments do not represent a sustained market

opportunity, they have shifted recent buying patterns, with many care givers accelerating their purchase of EHRs and making revenue cycle decisions tied to an EHR selection.

In addition to administering typical business functions, care givers must invest significant time and resources processing inbound and outbound communications related to physician orders, including referrals to specialists, imaging centers, laboratories, pharmacies, and inpatient admissions. In order to process these communications, medical practices often interact with multiple software systems; execute paper-based and fax-based communications to and from payers and other trading partners; and contact patients, payers, and other trading partners to effectively communicate the appropriate clinical information to accompany the order. All of this work must be conducted to ensure that the patient receives appropriate care and the procedure is eligible for reimbursement.

Our Strategy

Our mission is to be medical care givers' most trusted service. In almost all cases, we price our services as a percentage of practice collections, which incentivizes us to improve practice performance while simultaneously reducing cost through more efficient operations. As practices face rising costs, greater complexity, and changing reimbursement rates, they need solutions for a diverse set of problems. These problems include increased administrative work required to manage new reimbursement models; greater demand from trading partners and Shared Savings program members for electronic data exchange; pressure to adopt expensive EHRs; continued changes to federally mandated transaction standards; new insurance payer rules; more complicated reimbursement structures; and increased work to collect self-pay balances from uninsured, underinsured, and HDHP patients.

We believe that traditional, locally installed software fails to address all of these needs, solving only a subset of problems that can be managed through electronic storage and data transmission, without allowing for intelligent evolution of the functionality. Locally installed software also favors larger organizations that can afford an up-front investment in hardware and software, as well as the staff to manage and maintain these systems. Cloud-based software can solve a greater set of these problems — particularly when implemented in a single instance — because it can be quickly updated and delivered to all clients without expensive upgrades or new hardware installation. However, there remain many challenges that even cloud-based software alone cannot address without a corresponding service component. Examples include processing and sorting all incoming paper documents that a practice receives; identifying and managing payer rules; identifying and enrolling care givers in Pay-For-Performance programs; selecting and alerting care givers to Pay-for-Performance measures for specific patients; and taking patient phone calls with a live operator when a practice is closed. Our unique service model addresses these problems for clients through cloud-based software that delivers targeted knowledge to the right user at the right time, and through large service operations that can achieve a comparative advantage by executing work at scale that would otherwise fall upon the practice.

The electronic connectivity and system infrastructure that we provide would normally be out of reach for small independent practices, which make up the majority of the care giver market. However, because we automate processes and scale work across our entire provider network, we can efficiently deliver our services to medical practices of every size. By enabling small practices to receive the same level of technical and service infrastructure available to large clients, we provide significant benefit not only to practices but also to all of their trading partners and fellow Shared Savings program members. As practices continue to be acquired or divested by other entities, this strategic flexibility will enhance our ability to compete, regardless of whether the practice is independent or owned by a large enterprise.

Key elements of our strategy include:

- *Remaining intensely focused on our clients' success*. Our business model aligns our goals with our clients' goals, providing us with an ongoing incentive to improve client performance. We believe that this approach enables us to maintain client loyalty (demonstrated through high and sustained client satisfaction and retention), enhance our reputation, and improve the quality of our solutions.

- *Integration of revenue cycle, clinical cycle, patient cycle, and referral cycle*. As payment models continue to integrate cost efficiency and performance into reimbursement formulas, activities that previously were not factors in reimbursement will become more important in driving practice performance. Only practices that control these activities in a way that is fully integrated with their revenue cycle will have visibility into their true financial health. Some examples might be care handoffs between physicians and trading partners, care coordination to prevent duplicate procedures, patient adherence reminders, and closed-loop prescription and lab order management. We proactively demonstrate to practices how, when fully adopted and optimized, our integrated services —athenaCollector, athenaClinicals, athenaCommunicator, and athenaCoordinator — can help care givers manage and monitor performance comprehensively.
- *Maintaining and growing athenaRules*. Our Rules Engine leverages our single-instance platform to allow all clients to benefit from knowledge across the network. We actively seek out new revenue opportunities for practices and use the Rules Engine to deliver the right information to the right person at the right time. For athenaCollector clients, these rules are introduced during charge entry and claim submission to alert users to any errors or omissions; this increases the percentage of transactions that are successfully executed on the first attempt and reduces the time it takes to fully resolve claims or other transactions. We continually build our centralized payer reimbursement rules by learning from the collective experience of our national network of clients, as well as through proactive outreach to payers. The rules embedded in athenaClinicals are becoming increasingly tied to reimbursement as more Pay-for-Reporting, Pay-for-Performance, and other bonus payments require specific action at the point of care. The athenaClinicals workflow allows customizable alerts to surface during the encounter to ensure that the proper quality measures are being prompted. Without the type of automation found in our Quality Management Engine, these payment programs would plague physicians with an administrative burden, significantly impairing their ability to practice.
- *Increasing awareness and attracting new clients*. We believe that our cloud-based business services provide significant value for medical practices of any size, and we continue to expand sales and marketing efforts to address our market opportunity and aggressively seek new clients. Our athenaCollector client base currently represents approximately four percent of the addressable U.S. market, comprised of an estimated 650,000 physicians practicing in the ambulatory segment. In addition to our traditional marketing efforts targeted at small and group practices, we have introduced several new programs to reach hospitals and health systems, to help them manage their affiliated and employed physician strategies.
- *Uncovering and delivering new sources of revenue to clients*. We have worked closely with payers and other health care trading partners to demonstrate the process efficiencies and reduction in administrative work that our services provide to medical practices. We believe that, as these trading partners gain understanding of these advantages and related system-wide benefits, they will reward these efficiencies in a manner that accrues direct benefits for our clients.
- *High levels of user adoption and network transparency*. One of the biggest challenges for traditional EHR software vendors has been lack of physician adoption. Many physicians have not used software templates to habitually document encounters and fear that EHRs will slow them down. Traditional documentation styles such as paper or dictation are preferred in many cases. Due to our large service operation, we can support many alternate documentation styles that are not available with software-only solutions. For example, physicians can continue to document on paper and transmit that document to us to be processed and attached to the patient chart. By supporting multiple work styles and integrating these activities into the complete revenue, clinical, and patient cycles, our clients realize significant benefits by using our EHR, which drives our high adoption rate. We, in turn, convert this usage data into system-wide measures of top-line practice performance, individual clinician performance, and the associated drivers of each. We can then share this intelligence on the measures that correlate with, or drive, practice performance with our entire network of clients.

Our Solutions

Our service offerings are based on our proprietary cloud-based software, a continually updated database of rules, and integrated back-office service operations. Our services are designed to help our clients achieve faster reimbursement from all parties, reduce error rates, increase collections, lower operating costs, improve operational workflow controls, and more efficiently manage clinical and billing information.

athenaCollector and Anodyne Analytics

Our principal offering, athenaCollector, is our revenue cycle management service. It automates and manages billing-related functions for medical practices and includes a practice management platform. athenaCollector assists our clients with the proper handling of claims and billing processes to help manage reimbursement quickly and efficiently. Complementing athenaCollector is our business intelligence offering, Anodyne Analytics, which provides physicians and practice managers with comprehensive, detailed insight into practice performance.

Software (athenaNet and Anodyne Analytics)

Through athenaNet, athenaCollector utilizes the Internet to connect medical practices to our Rules Engine and service operations team. athenaCollector is a complete practice management system that includes scheduling, payment processing, and a workflow dashboard. The system is used by our clients and our services team to track claims requiring edits in real-time before they are sent to the payer, claims requiring work that have come back from the payer unpaid, and claims that are being held up due to administrative steps required by the individual client. This web-native functionality provides our clients with the benefits of our payer rules database as it is updated and enables them to interact with our services team to efficiently monitor workflows. Each transaction runs through our centralized Rules Engine so preventable mistakes can be corrected quickly across all of our clients. We also include a full set of reporting tools in athenaNet, so that users can track their ongoing performance and benchmark it against other practices.

With the acquisition of Anodyne in October 2009, we expanded the business intelligence function of our existing services through the addition of Anodyne Analytics. This web-based, Software-as-a-Service platform organizes and analyzes billing and claims-based data across medical practices, allowing decision makers to quickly and easily present that data visually through a wide array of business performance metrics. These metrics can be provided either as broad, practice-wide summaries or as discrete, highly specific analyses based on complex user-defined requests. In the future, we plan to further leverage the additional detail and analysis offered by Anodyne Analytics and the Anodyne Intelligence Platform to visually present other data sets such as clinical and patient cycle metrics.

Knowledge (athenaRules)

Medical practices route all of their day-to-day electronic and paper-based payer communications to us, which we then process using our patented billing Rules Engine and service operations to avoid reimbursement delays and improve practice performance. Our proprietary database of payer knowledge has been constructed based on over eleven years of experience in handling the physician workflow in thousands of medical practices, with medical claims from tens of thousands of health benefit packages. The core focus of the database is on the payer rules, which are the key drivers of claim payment and denials. Understanding denials allows us to construct rules to avoid future denials across our entire client base, resulting in increased automation of our workflow processes. On average, over 100 rules are added to or revised in our Rules Engine each month. athenaRules has been designed to interact seamlessly with athenaNet in the medical office workflow and with our service operations.

Work (athenahealth Service Operations)

athenahealth service operations enable the service teams that collaborate with client staff to achieve successful transactions. Our service operations consist of both knowledgeable staff and technological

infrastructure used to execute the key steps associated with proper handling of physician claims and clinical data management. The service operations team is comprised of over 1,000 people who interact with physicians, providers, and clinicians at all of the key steps in the revenue cycle, including:

- coordinating with payers to ensure that client providers are properly set up for billing;
- checking the eligibility of scheduled patients electronically;
- submitting claims to payers directly or through intermediaries, whether electronically or via printed claim forms;
- obtaining confirmation of claim receipt from payers, either electronically or through phone calls;
- receiving and processing checks and remittance information from payers and documenting the result of payers' responses;
- evaluating denied claims and determining the best approach to appealing or resubmitting claims to obtain payment;
- billing patients for balances that are due;
- compiling and delivering management reporting about the performance of clients at both the account level and the provider level;
- transmitting key clinical data to the revenue cycle workflow to eliminate the need for code re-entry and to permit assembly of all key data elements required to achieve maximum appropriate reimbursement; and
- providing proactive and responsive client support to manage issues, address questions, identify training needs, and communicate trends.

athenaClinicals

athenaClinicals is our EHR service, which automates and manages medical-record-management-related functions for practices. It assists medical groups with the proper handling of physician documentation, orders, and related inbound and outbound communications to ensure that orders are carried out quickly and accurately. athenaClinicals is designed to improve clinical administrative workflow.

Software (athenaNet)

Through athenaNet, athenaClinicals displays key clinical measures, by office location related to the drivers of high quality and efficient care delivery, on a workflow dashboard, including lab results requiring review, patient referral requests, prescription requests, and family history of previous exams. athenaClinicals is a 2011/2012 compliant Complete EHR technology and has been certified by the Certification Commission for Healthcare Information Technology ("CCHIT"), an ONC-ATCB, in accordance with the applicable certification criteria. Similar to its functionality within athenaCollector, athenaNet provides comprehensive reporting on a range of clinical results, including distribution of different procedure codes (leveling), incidence of different diagnoses, timeliness of turnaround by lab companies and other intermediaries, and other key performance indicators.

Knowledge (athenaRules)

Reporting and quality programs have collectively become a greater portion of physician revenue but are very difficult to manage on paper or in a static software system, where the user is not prompted for the appropriate action to be taken. Clinical data must be captured according to the requirements and incentives of different payers and plans. Clinical intermediaries such as laboratories and pharmacy networks require specific formats and data elements, as well. athenaRules is designed to access medication formularies, identify potential medication errors (such as drug-to-drug interactions or allergy reactions), and identify the specific clinical activities that are required to adhere to Pay-for-Performance programs, including Medicare incentive payments under the HITECH Act.

Work (athenahealth Service Operations)

Medical practices that use an EHR still receive large amounts of paper documentation from third parties. These can include consult letters, lab results, general correspondence, and multiple other document types. Practices can receive an average of over 1,000 clinical documents per provider per month, creating a significant administrative burden. Our service operations capture inbound paper documents, convert them to electronic format, attach them to the appropriate patient chart, classify them according to type, and associate results with the original order where applicable. Additionally, even if the physician creates an order in the EHR, the intended recipient may not accept orders electronically; in that case, we reduce the electronically generated order to paper for delivery on behalf of the practice. We also perform many of the Pay-for-Performance program identification and enrollment tasks on behalf of practices so that they can participate without significant up-front research and effort.

athenaCommunicator

Through athenaNet, athenaCommunicator — which includes ReminderCall (part of the acquisition of Crest Line Technologies, LLC in September 2008) and other automated patient messaging services, live operator services, and a patient portal — was commercially released in the first half of 2010. These services help reduce patient no-show rates and improve overall schedule density, which increases the number of revenue-generating appointments for our clients. The ability to increase patient outreach also helps provide clinical education and adherence reminders to patients, which increases the quality of care and improves outcomes without increasing practice demand to monitor and contact patients. The service provides a personalized, high-quality experience for patients while driving practice performance.

Software (athenaNet)

athenaCommunicator allows practices to manage many patient communication tasks electronically, including use of automated reminder calls with customizable criteria and opt-out functionality; creation of a self-service patient portal for registration, appointment requests, bill payments, and general communication; automatic generation of emails to patients; and patient education tools. The automated phone calls are multi- purpose and may include appointment reminders, outbound campaigns, and follow-up on outstanding balances while prompting patients to make payments by mail, telephone, or online through our systems.

Knowledge (athenaRules)

athenaCommunicator allows practices to build a highly flexible set of communication rules with their patients. They can set patient or group-specific communication preferences that will automatically tailor communications to the preferred timing and mode of delivery, including phone call, e-mail, or patient portal. These communication rules allow each patient to receive a personalized experience, including delivery of messages with branding and using the Caller ID of the practice, if desired.

Work (athenahealth Service Operations)

Practices spend a great deal of time fielding phone calls from patients on topics ranging from scheduling requests, bill payment, directions, and clinical cases. As part of the athenaCommunicator service, we provide live operators who field these calls on behalf of practices, including redirected automated calls for appointment scheduling, patient payments, and message-taking. We also print and mail paper statements to patients on behalf of the practice to assist with patient payment collection. Collectively, these activities expand the availability of the office to patients and help free staff to focus on more critical tasks.

athenaCoordinator

The result of athenahealth's acquisition of Proxsys LLC in August 2011, athenaCoordinator is a referral cycle management tool that helps streamline the disorganized system of patient care coordination. The

connections between practices and points of patient referral are rife with inefficiencies due to patient data redundancies, manual inputs, and errors, resulting in additional practice workload and patient dissatisfaction. With athenaCoordinator, care givers can efficiently deliver a clean referral order to a physician, hospital, or other supply-chain partner. This much-needed improvement in today's health care reduces unnecessary phone calls and faxes, eliminates redundancies, and greatly reduces both the error rate and patient frustration.

Software (athenaNet)

athenaCoordinator allows providers, via an easy-to-use online portal, to electronically prepare and send a "clean order" for a referral — meaning all the pertinent information needed to streamline care coordination is complete — and a patient can arrive at his or her appointment with another physician, or at a hospital or lab, with information already entered and verified. This information can include the order details, the patient's insurance eligibility, any necessary pre-certification, information the receiving provider needs to fulfill and bill the order, and details on any prior authorizations that are needed. This type of efficient information transfer delivers benefits to both the referring and receiving providers. For the initial care giver, athenaCoordinator reduces time spent managing outbound orders and can provide greater visibility to patient status after the referring visit. For the receiving care giver, athenaCoordinator reduces denials, the time spent processing referrals, and the risk of acting on erroneous information. Referring providers who use athenaClinicals can also receive a detailed care summary of the referral, effectively closing the loop of patient care.

Knowledge (athenaRules)

As part of a streamlined path of coordinated care information, athenahealth's powerful, cloud-based Rules Engine automatically determines a patient's insurance eligibility after a referring provider enters an order via the web-based portal. This cuts down on the need for practice staff to manually contact an insurer and allows a patient to arrive at a receiving provider with his or her coverage eligibility already confirmed. Both the patient and the receiving hospital or lab staff can then focus on care and not get bogged down in insurance eligibility research at the point of care.

Work (athenahealth Service Operations)

Preparing referral orders can often require office staff to spend time managing administrative duties—and they'll often not receive follow-up information after a patient has visited a referred lab, physician, or hospital. As part of athenaCoordinator, athenahealth staff takes over this work, benefitting both the referring and receiving providers. athenahealth back-office operations will verify insurance and benefits with payers, secure pre-certification, handle patient registration, collect self-pay from the patient, and electronically deliver the order to the receiving provider in advance of the patient visit.

Research and Development

Our research and development efforts focus on enhancing our service offerings in response to changes in the market and evolving our technology platform to better serve medical practices. All of our clients use the same version of our software, although some athenaRules are designed to take effect locally for particular clients. We continually update our software and rules and execute bimonthly releases of new software functionality for our clients. Our software development life cycle methodology ensures that each software release is properly designed, built, tested, and rolled out. Our software development technologists are primarily located in the United States; we complement this team's work with software development services from third-party technology development providers in Huntsville, Alabama, and Pune, India, as well as our own employees at our development center operated through our subsidiary in Chennai, India. In addition to our core software development activities, we dedicate full-time staff to our ongoing development and maintenance of the rules database. On average, over 100 rules are added or revised in our billing Rules Engine each month. We also employ program management and product management personnel, who work continually on improvements to our service operations processes and our service design, respectively.

athenaIntelligence

The team behind athenaRules is based in Watertown, Massachusetts, and is supported by employees at all of our locations. This team is responsible for creating the billing rules that alert clients to potential problems on claims and for the creation of the clinical rules that alert clinical staff to quality measures applicable to particular patients and encounters. Some key metrics delivered by the athenaIntelligence team in 2011 were:

- over 26 different Pay-for-Performance programs built into the Rules Engine; and
- 93.7% of claims resolved on the first submission.

Taken as a whole, these activities result, in most cases, in a direct reduction in practices' work. Rather than submitting a claim with missing information, waiting for adjudication, receiving a denial, and then resubmitting the claim to start the cycle over again, our practices are alerted to issues prior to the first submission. Similarly, practices are spared the tedious process of identifying upcoming appointments for patients that qualify for a specific Pay-for-Performance program and then remembering to track the appropriate measure during the encounter; instead, athenaClinicals introduces the measure seamlessly into the workflow.

Operations

Our operations team assists clients at each critical step in the revenue cycle, clinical cycle, patient cycle, and referral cycle workflow processes and provides services that include insurance benefits packaging, insurance eligibility confirmation, claims submission, claims tracking, remittance posting, denials management, payment processing, formatting of lab requisitions, submission of lab requisitions, and monitoring and classification of all inbound faxes. Additionally, we use third parties for data entry, data matching, data characterization, and outbound and inbound telephone services. We have contracted with International Business Machines Corporation and Vision Business Process Solutions Inc., a subsidiary of Dell, Inc. (formerly Perot Systems Corporation), to provide data entry and other services from facilities located in India and the Philippines to support our operations team. These services are generally commercially available at comparable rates from other service providers.

During 2011, we:

- posted approximately $7.3 billion in physician collections;
- processed over 59 million medical claims;
- handled approximately 161 million charge postings; and
- delivered 49 million automated calls to patients on behalf of practices.

We depend on satisfied clients to succeed. Our client contracts require minimum commitments by us on a range of tasks, including claims submission, payment posting, claims tracking, and claims denial management. We also commit to our clients that athenaNet is accessible 99.7% of the time, excluding scheduled maintenance windows. Each quarter, our management conducts a survey of clients to identify client concerns and track progress against client satisfaction objectives. In our most recent survey for athenaCollector, 87.3% of the respondents reported that they would recommend our services to a trusted friend or colleague.

In addition to the services described above, we also provide client support services. There are several client support service activities that take place on a regular basis, including the following:

- client support by our client services center, which is designed to address client questions and concerns rapidly, whether those questions and concerns are registered via a phone call or via an online support case through our customized use of customer relationship management technology;
- account performance monitoring by the account management organization to address open issues and focus clients on the financial results of the co-sourcing relationship; these activities are intended to aid in

client performance and retention, determine appropriate adjustments to service pricing at renewal dates, inform clients of the full suite of our services, and provide incremental services when appropriate; and

- relationship management by regional leaders of the client services organization to ensure that decision- makers at client practices are satisfied and that regional performance is managed proactively with regard to client satisfaction, client margins, client retention, renewal pricing, and added services.

The increased burden on patients to pay for a larger percentage of their health care services, together with the need for care givers to have the ability to determine this patient payment responsibility at the time of service, has led some payers to develop the capability to accept and process claims in real time. This is frequently referred to within the industry as "real time adjudication" (or "RTA") because it avoids the processing time that adjudication of claims by payers has historically involved. Under an RTA system, payers notify physicians immediately upon receipt of billing information if third-party claims are accepted or rejected, the amount that will be paid by the payer, and the amount that the patient may owe under the particular health plan involved. Taking advantage of this payer capability, we have designed a platform for transacting with payer RTA systems that is payer-neutral and designed to integrate the various payer RTA processes so that our clients experience the same workflow regardless of payer. Using this platform, we have collaborated with two major payers, Humana and United Healthcare, to process RTA transactions with their systems.

Sales and Marketing

We have developed sales and marketing capabilities aimed at expanding our network of physician clients. We expect to expand our network by selling our services to new clients and cross-selling additional services into our client base. We have a direct sales force, which we augment through our channel partners and marketing initiatives.

Direct Sales

We sell our services primarily through our direct sales force. Our sales force is divided into three groups: the enterprise team, which is dedicated to professionally managed care organizations with 150 or more physicians; the group team, which is dedicated to medical practices with five to 149 physicians; and the small group team, which is dedicated to practices with one to four physicians. Our sales force is supported by personnel in our marketing organization, who provide specialized support for promotional and selling efforts. Due to our ongoing service relationship with clients, we conduct a consultative sales process. This process includes understanding the needs of prospective clients, developing service proposals, and negotiating contracts to enable the commencement of services.

Channel Partners

In addition to our direct sales force, we maintain business relationships with third parties that promote or support our sales or services within specific industries or geographic regions. We refer to these third parties as "channels" and the individuals and organizations involved as our "channel partners." In most cases, these relationships are agreements that compensate channel partners for providing us sales lead information that results in sales. These channel partners generally do not make sales but instead provide us with leads that we use to develop new business through our direct sales force. Other channel relationships permit third parties to act as an independent sales representative, a purchasing agent (as in the case of group purchasing organizations), or a joint marketer of combined service offerings that we jointly develop with that third party. In some instances, the channel relationship involves endorsement or promotion of our services by these third parties. In 2011, channel-based leads were associated with approximately 40% of our new business. Our channel relationships include state medical societies, health care information technology product companies, health care product distribution companies, consulting firms, group purchasing organizations, regional extension centers, and payers. Examples of these types of channel relationships include:

- *Humana Inc. ("Humana")*. In August 2010, we entered into an alliance with Humana to promote a program to reward quality, efficiency, and improved coordination of care for Humana's Medicare

beneficiaries. Under this program, eligible physicians can receive a subsidy from Humana for the purchase of our athenaClinicals service and earn additional revenue above their current fee schedule for meeting certain performance criteria. Humana is one of the nation's largest publicly traded health and supplemental benefits companies.

- *WorldMed Shared Services, Inc. d/b/a PSS World Medical Shared Services, Inc. ("PSS").* In October 2010, we entered into an agreement with PSS for the marketing and sale of our revenue cycle, clinical cycle, and patient cycle services. Under the terms of the agreement, PSS has a non-exclusive right to distribute, sell, market, and promote our services in the United States (excluding Hawaii) and we will pay PSS commissions based upon the contract value of client orders placed through PSS. According to PSS, they are the largest provider of medical and surgical supplies to the physician market in the United States, with a sales force of more than 750 sales consultants who distribute medical supplies and equipment to approximately 100,000 offices in all 50 states.

Marketing Initiatives

Since our service model is new to most physicians, our marketing and sales objectives are designed to increase awareness of our company, establish the benefits of our service model, and build credibility with prospective clients so that they will view our company as a trustworthy long-term service provider. To execute on this strategy, we have designed and implemented specific activities and programs aimed at converting leads to new clients.

Our marketing initiatives are generally targeted toward specific segments of the medical practice market. These marketing programs primarily consist of:

- traditional print advertising;
- sponsored pay-per-click search advertising and other Internet-focused awareness-building efforts (such as social media, online videos, webinars, and destination websites covering compliance and other issues of interest to medical practices);
- public relations activities aimed at generating media coverage;
- campaigns to engage hospitals in discussions about their approach to the affiliated physician market;
- participation in industry-focused trade shows;
- targeted mail, e-mail, and phone calls to medical practices;
- informational meetings (such as strategic retreats with targeted potential clients); and
- dinner seminar series.

In June 2006, we introduced our annual PayerView rankings to provide an industry-unique framework that systematically addresses what we believe is administrative complexity that exists between payers and providers. PayerView is designed to look at payers' performance based on a number of categories, which combine to provide an overall ranking aimed at quantifying the "ease of doing business with the payer." All data used for the rankings come from our clients' actual claims performance data and depict our experience in dealing with individual payers across the nation. The rankings include payers that meet a threshold of 4,000 claims per quarter in athenaNet.

Competition

We have experienced, and expect to continue to experience, intense competition from a number of companies. Our primary competition is the use of locally-installed software to manage revenue cycle, clinical cycle, and patient cycle workflow within the physician's office. Other nationwide competitors have begun

introducing services that they refer to as “on-demand” or “software-as-a-service” models, under which software is centrally hosted and services are provided from central locations. Software and service companies that sell practice management and EHR software and medical billing and collection services include Allscripts-Misys Healthcare Solutions, Inc.; eClinicalWorks, LLC; GE Healthcare; Greenway Medical Technologies, Inc.; Quality Systems, Inc.; Sage Software Healthcare, Inc.; and Siemens Medical Solutions USA, Inc. As a service company that provides revenue cycle services, we also compete against large billing companies such as Ingenix, a division of United Healthcare, Inc.; McKesson Corp.; and regional billing companies.

The principal competitive factors in our industry include:

- ability to quickly adapt to increasing complexity of the health care reimbursement system;
- size and scope of payer rules knowledge;
- ability to introduce only relevant rules into the workflow at the point of care;
- ease of use and rates of user adoption;
- product functionality and scope of services;
- scope of network connections to support electronic data interactions;
- performance, security, scalability, and reliability of service;
- sale and marketing capabilities of the vendor; and
- financial stability of the vendor.

We believe that we compete favorably with our competitors on the basis of these factors. However, many of our competitors and potential competitors have significantly greater financial, technological, and other resources and name recognition than we do, as well as more established distribution networks and relationships with health care providers. As a result, many of these companies may respond more quickly to new or emerging technologies and standards and changes in customer requirements. These companies may be able to invest more resources than we can in research and development, strategic acquisitions, sales and marketing, and patent prosecution and litigation and to finance capital equipment acquisitions for their customers.

Government Regulation

Although we generally do not contract with U.S. state or local government entities, the services that we provide are subject to a complex array of federal and state laws and regulations, including regulation by the Centers for Medicare and Medicaid Services, or CMS, of the U.S. Department of Health and Human Services, as well as additional regulation.

Government Regulation of Health Information

HIPAA Privacy and Security Rules. The Health Insurance Portability and Accountability Act of 1996, as amended, and the regulations that have been issued under it (collectively, “HIPAA”) contain substantial restrictions and requirements with respect to the use and disclosure of individuals’ protected health information. These are embodied in the Privacy Rule and Security Rule portions of HIPAA. The HIPAA Privacy Rule prohibits a covered entity from using or disclosing an individual’s protected health information unless the use or disclosure is authorized by the individual or is specifically required or permitted under the Privacy Rule. The Privacy Rule imposes a complex system of requirements on covered entities for complying with this basic standard. Under the HIPAA Security Rule, covered entities must establish administrative, physical, and technical safeguards to protect the confidentiality, integrity, and availability of electronic protected health information maintained or transmitted by them or by others on their behalf.

The HIPAA Privacy and Security Rules apply directly to covered entities, such as health care providers who engage in HIPAA-defined standard electronic transactions, health plans, and health care clearinghouses. Because we translate electronic transactions to and from the HIPAA-prescribed electronic forms and other forms, we are considered a clearinghouse, and as such are a covered entity. In addition, our clients are also covered entities. In order to provide clients with services that involve the use or disclosure of protected health information, the HIPAA Privacy and Security Rules require us to enter into business associate agreements with our clients. Such agreements must, among other things, provide adequate written assurances:

- as to how we will use and disclose the protected health information;
- that we will implement reasonable administrative, physical, and technical safeguards to protect such information from misuse;
- that we will enter into similar agreements with our agents and subcontractors that have access to the information;
- that we will report security incidents and other inappropriate uses or disclosures of the information; and
- that we will assist the client in question with certain of its duties under the Privacy Rule.

HIPAA Transaction Requirements. In addition to the Privacy and Security Rules, HIPAA also requires that certain electronic transactions related to health care billing be conducted using prescribed electronic formats. For example, claims for reimbursement that are transmitted electronically to payers must comply with specific formatting standards, and these standards apply whether the payer is a government or a private entity. As a covered entity subject to HIPAA, we must meet these requirements, and moreover, we must structure and provide our services in a way that supports our clients' HIPAA compliance obligations.

HITECH Act. The HITECH Act, which became law in February 2009, and the regulations issued and to be issued under it, have provided and are expected to provide, among other things, clarification of certain aspects of both the Privacy and Security Rules, expansion of the disclosure requirements for a breach of the Security Rule, and strengthening of the civil and criminal penalties for failure to comply with HIPAA. As these additional requirements are adopted, we will be required to comply with them.

State Laws. In addition to the HIPAA Privacy and Security Rules and the requirements imposed by the HITECH Act, most states have enacted patient confidentiality laws that protect against the disclosure of confidential medical information, and many states have adopted or are considering further legislation in this area, including privacy safeguards, security standards, and data security breach notification requirements. Such state laws, if more stringent than HIPAA and HITECH Act requirements, are not preempted by the federal requirements, and we must comply with them. For example, the Massachusetts Office of Consumer Affairs and Business Regulations issued final data security regulations, which became effective in March 2010 and establish minimum standards for protecting and storing personal information about Massachusetts residents contained in paper or electronic format.

Government Regulation of Reimbursement

Our clients are subject to regulation by a number of governmental agencies, including those that administer the Medicare and Medicaid programs. Accordingly, our clients are sensitive to legislative and regulatory changes in, and limitations on, the government health care programs and changes in reimbursement policies, processes, and payment rates. During recent years, there have been numerous federal legislative and administrative actions that have affected government programs, including adjustments that have reduced or increased payments to physicians and other health care providers and adjustments that have affected the complexity of our work. It is possible that the federal or state governments will implement future reductions, increases, or changes in reimbursement under government programs that adversely affect our client base or our cost of providing our services.

Fraud and Abuse

A number of federal and state laws, loosely referred to as "fraud and abuse laws," are used to prosecute health care providers, physicians, and others that make, offer, seek, or receive referrals or payments for products or services that may be paid for through any federal or state health care program and, in some instances, any private program. Given the breadth of these laws and regulations, they are potentially applicable to our business; the transactions that we undertake on behalf of our clients; and the financial arrangements through which we market, sell, and distribute our services. These laws and regulations include:

Anti-Kickback Laws. There are numerous federal and state laws that govern patient referrals, physician financial relationships, and inducements to health care providers and patients. The federal health care programs' anti-kickback law prohibits any person or entity from offering, paying, soliciting, or receiving anything of value, directly or indirectly, for the referral of patients covered by Medicare, Medicaid, and other federal health care programs or the leasing, purchasing, ordering, or arranging for or recommending the lease, purchase, or order of any item, good, facility, or service covered by these programs. Courts have construed this anti-kickback law to mean that a financial arrangement may violate this law if any one of the purposes of one of the arrangements is to encourage patient referrals or other federal health care program business, regardless of whether there are other legitimate purposes for the arrangement. There are several limited exclusions known as safe harbors that may protect some arrangements from enforcement penalties. These safe harbors have very limited application. Penalties for federal anti-kickback violations are severe, and include imprisonment, criminal fines, civil money penalties with triple damages, and exclusion from participation in federal health care programs. Many states have similar anti-kickback laws, some of which are not limited to items or services for which payment is made by a government health care program.

False or Fraudulent Claim Laws. There are numerous federal and state laws that forbid submission of false information, or the failure to disclose information, in connection with the submission and payment of physician claims for reimbursement. In some cases, these laws also forbid abuse in connection with such submission and payment, for example, by systematic over treatment or duplicate billing for the same services to collect increased or duplicate payments. These laws and regulations may change rapidly, and it is frequently unclear how they apply to our business. For example, one federal false claim law forbids knowing submission to government programs of false claims for reimbursement for medical items or services. Under this law, knowledge may consist of willful ignorance or reckless disregard of falsity. How these concepts apply to services such as ours that rely substantially on automated processes has not been well defined in the regulations or relevant case law. As a result, our errors with respect to the formatting, preparation, or transmission of such claims and any mishandling by us of claims information that is supplied by our clients or other third parties may be determined to, or may be alleged to, involve willful ignorance or reckless disregard of any falsity that is later determined to exist.

In most cases where we are permitted to do so, we charge our clients a percentage of the collections that they receive as a result of our services. To the extent that liability under fraud and abuse laws and regulations requires intent, it may be alleged that this percentage calculation provides us or our employees with incentive to commit or overlook fraud or abuse in connection with submission and payment of reimbursement claims. CMS has stated that it is concerned that percentage-based billing services may encourage billing companies to commit or to overlook fraudulent or abusive practices.

PPACA. In addition to the provisions relating to health care access and delivery, the Patient Protection and Affordable Care Act made changes to health care fraud and abuse laws. The PPACA expands false claim laws, amends key provisions of other anti-fraud and abuse statutes, provides the government with new enforcement tools and funding for enforcement, and enhances both criminal and administrative penalties for noncompliance. The PPACA may result in increased anti-fraud enforcement activities.

Stark Law and Similar State Laws. The Ethics in Patient Referrals Act, known as the Stark Law, prohibits certain types of referral arrangements between physicians and health care entities. Physicians are prohibited from

referring patients for certain designated health services reimbursed under federally funded programs to entities with which they or their immediate family members have a financial relationship or an ownership interest, unless such referrals fall within a specific exception. Violations of the statute can result in civil monetary penalties and/or exclusion from the Medicare and Medicaid programs. Furthermore, reimbursement claims for care rendered under forbidden referrals may be deemed false or fraudulent, resulting in liability under other fraud and abuse laws.

Laws in many states similarly forbid billing based on referrals between individuals and/or entities that have various financial, ownership, or other business relationships. These laws vary widely from state to state.

Corporate Practice of Medicine Laws, Fee-Splitting Laws, and Anti-Assignment Laws

In many states, there are laws that prohibit non-licensed practitioners from practicing medicine, prevent corporations from being licensed as practitioners, and prohibit licensed medical practitioners from practicing medicine in partnership with non-physicians, such as business corporations. In some states, these prohibitions take the form of laws or regulations forbidding the splitting of physician fees with non-physicians or others. In some cases, these laws have been interpreted to prevent business service providers from charging their physician clients on the basis of a percentage of collections or charges.

There are also federal and state laws that forbid or limit assignment of claims for reimbursement from government-funded programs. Some of these laws limit the manner in which business service companies may handle payments for such claims and prevent such companies from charging their physician clients on the basis of a percentage of collections or charges. In particular, the Medicare program specifically requires that billing agents who receive Medicare payments on behalf of medical care providers must meet the following requirements:

- the agent must receive the payment under an agreement between the provider and the agent;
- the agent's compensation may not be related in any way to the dollar amount billed or collected;
- the agent's compensation may not depend upon the actual collection of payment;
- the agent must act under payment disposition instructions, which the provider may modify or revoke at any time; and
- in receiving the payment, the agent must act only on behalf of the provider, except insofar as the agent uses part of that payment to compensate the agent for the agent's billing and collection services.

Medicaid regulations similarly provide that payments may be received by billing agents in the name of their clients without violating anti-assignment requirements if payment to the agent is related to the cost of the billing service, not related on a percentage basis to the amount billed or collected, and not dependent on collection of payment.

Electronic Prescribing Laws

States have differing prescription format and signature requirements. Many existing laws and regulations, when enacted, did not anticipate the methods of e-commerce now being developed. However, due in part to recent industry initiatives, federal law and the laws of all 50 states now permit the electronic transmission of prescription orders. In addition, on November 7, 2005, the Department of Health and Human Services published its final E-Prescribing and the Prescription Drug Program regulations, referred to below as the E-Prescribing Regulations. These regulations are required by the Medicare Prescription Drug Improvement and Modernization Act of 2003 ("MMA") and became effective beginning on January 1, 2006. The E-Prescribing Regulations consist of detailed standards and requirements, in addition to the HIPAA standards discussed previously, for prescription and other information transmitted electronically in connection with a drug benefit covered by the

MMA's Prescription Drug Benefit. These standards cover not only transactions between prescribers and dispensers for prescriptions but also electronic eligibility and benefits inquiries and drug formulary and benefit coverage information. The standards apply to prescription drug plans participating in the MMA's Prescription Drug Benefit. Aspects of our services are affected by such regulation, as our clients need to comply with these requirements.

Anti-Tampering Laws

For certain prescriptions that cannot or may not be transmitted electronically from physician to pharmacy, both federal and state laws require that the written forms used exhibit anti-tampering features. For example, the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007 has since April 2008 required that most prescriptions covered by Medicaid must demonstrate security features that prevent copying, erasing, or counterfeiting of the written form. Because our clients will, on occasion, need to use printed forms, we must take these laws into consideration for purposes of the prescription functions of our athenaClinicals service.

Electronic Health Records Certification Requirements

The HITECH Act directs the Office of the National Coordinator for Health Information Technology, or ONCHIT, to support and promote meaningful use of certified EHR technology nationwide through the adoption of standards, implementation specifications, and certification criteria as well as the establishment of certification programs for EHR technology. In January 2011, HHS issued a final rule to establish a permanent certification program for EHR technology, including how organizations can become ONC-Authorized Testing and Certification Bodies (ONC-ATCBs). ONC-ATCBs are required to test and certify that EHR technology is compliant with the standards, implementation specifications, and certification criteria adopted by the Secretary and meet the definition of "certified EHR technology." In July 2010, the Secretary published the final rule that adopted standards, implementation specifications, and certification criteria for EHR technology. Our athenaClinicals service was certified as a 2011/2012 compliant Complete EHR by CCHIT, an ONC-ATCB, in accordance with the applicable eligible provider certification criteria adopted by the Secretary. While we believe our system is well designed in terms of function and interoperability, we cannot be certain that it will meet future requirements.

United States Food and Drug Administration

The U.S. Food and Drug Administration ("FDA") has promulgated a draft policy for the regulation of computer software products as medical devices and a proposed rule for reclassification of medical device data systems under the Federal Food, Drug and Cosmetic Act, as amended, or FDCA. The FDA has stated that health information technology software is a medical device under the FDCA, and we expect that the FDA is likely to become increasingly active in regulating computer software intended for use in health care settings regardless of whether the draft policy or proposed rule is finalized or changed. If our computer software functionality is considered medical device under the FDCA, we could be subject to the FDA requirements discussed below.

Medical devices are subject to extensive regulation by the FDA under the FDCA. Under the FDCA, medical devices include any instrument, apparatus, machine, contrivance, or other similar or related article that is intended for use in the diagnosis of disease or other conditions or in the cure, mitigation, treatment, or prevention of disease. FDA regulations govern, among other things, product development, testing, manufacture, packaging, labeling, storage, clearance or approval, advertising and promotion, sales and distribution, and import and export. FDA requirements with respect to devices that are determined to pose lesser risk to the public include:

- establishment registration and device listing with the FDA;
- the Quality System Regulation, or QSR, which requires manufacturers, including third-party or contract manufacturers, to follow stringent design, testing, control, documentation, and other quality assurance procedures during all aspects of manufacturing;

- labeling regulations and FDA prohibitions against the advertising and promotion of products for uncleared, unapproved off-label uses and other requirements related to advertising and promotional activities;
- medical device reporting regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur;
- corrections and removal reporting regulations, which require that manufacturers report to the FDA any field corrections and product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the FDCA that may present a risk to health; and
- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

Non-compliance with applicable FDA requirements can result in, among other things, public warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the FDA to grant marketing approvals, withdrawal of marketing approvals, a recommendation by the FDA to disallow us from entering into government contracts, and criminal prosecutions. The FDA also has the authority to request repair, replacement, or refund of the cost of any device.

Foreign Regulations

Our subsidiary in Chennai, India, is subject to additional regulations by the Government of India, as well as its regional subdivisions. These regulations include Indian federal and local corporation requirements, restrictions on exchange of funds, employment-related laws, and qualification for tax status and tax incentives.

Intellectual Property

We rely on a combination of patent, trademark, copyright, and trade secret laws in the United States as well as confidentiality procedures and contractual provisions to protect our proprietary technology, databases, and our brand. Despite these reliances, we believe the following factors are more essential to establishing and maintaining a competitive advantage:

- the statistical and technological skills of our service operations and research and development teams;
- the health care domain expertise and payer rules knowledge of our service operations and research and development teams;
- the real-time connectivity of our service offerings;
- the continued expansion of our proprietary Rules Engine; and
- a continued focus on the improved financial results of our clients.

As of December 31, 2011, we held two U.S. patents, with sixteen U.S. patent applications pending and seven foreign patent applications pending. Our first patent relates to our unique patient workflow process, including the Rules Engine, which applies proprietary rules to practice and payer inputs on a live, ongoing basis to produce cleaner health care claims, which can be adjudicated more quickly and efficiently. This patent was granted in November 2009 and expires in December 2023. Our second patent covers the self-service implementation of a practice management system, which allows for our clients to configure their systems themselves by responding to a series of rule-based questions, thus saving time and money. This second patent was granted in May 2010 and expires in July 2029. We will continue to file and prosecute patent applications when and where appropriate to protect our rights in proprietary technologies.

We also rely on a combination of registered and unregistered service marks to protect our brand. Our registered service marks include athenaClinicals, athenaCollector, athenaCommunicator, athenahealth,

athenaNet, PayerView, and the athenahealth logo. Anodyne Analytics, Anodyne Intelligence, athenaCoordinator, athenaEnterprise, athenaRules, Proxsys, and ReminderCall are unregistered service marks. This Annual Report on Form 10-K also includes the registered and unregistered trademarks and service marks of other persons.

We have a policy of requiring key employees and consultants to execute confidentiality agreements upon the commencement of an employment or consulting relationship with us. Our employee agreements also require relevant employees to assign to us all rights to any inventions made or conceived during their employment with us. In addition, we have a policy of requiring individuals and entities with which we discuss potential business relationships to sign non-disclosure agreements. Our agreements with clients include confidentiality and non-disclosure provisions.

Seasonality

There is moderate seasonality in the activity level of medical practices. Typically, discretionary use of physician services declines in the late summer and during the holiday season, which leads to a decline in collections by our physician clients about 30 to 50 days later. In addition, as further explained in "Risk Factors" in Item 1A of Part I of this Annual Report on Form 10-K, our revenues and operating results may fluctuate from quarter to quarter depending on a host of factors including, but not limited to, the severity, length, and timing of seasonal and pandemic illnesses.

Employees

As of December 31, 2011, we had 1,795 full-time employees, with 1,068 in service operations, 276 in sales and marketing, 277 in research and development, and 174 in general and administrative functions. Of these full-time employees, 1,667 were located in the U.S. and 128 were located in Chennai, India. We believe that we have good relationships with our employees. None of our employees are subject to collective bargaining agreements or are represented by a union.

Financial Information

The financial information required under this Item 1 is incorporated herein by reference to Item 8 of this Annual Report on Form 10-K.

Where You Can Find More Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, including exhibits, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the "Investors" portion of our website (*www.athenahealth.com*) free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or SEC. Information on our website is not part of this Annual Report on Form 10-K or any of our other securities filings unless specifically incorporated herein by reference. In addition, our filings with the SEC may be accessed through the SEC's Interactive Data Electronic Applications (IDEA) system at www.sec.gov. All statements made in any of our securities filings, including all forward-looking statements or information, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements or documents unless we are required to do so by law.

Item 1A. *Risk Factors.*

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. Except for the historical information in this report, the matters contained in this report include forward-looking statements that involve risks and uncertainties. The following

factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect upon our business, results of operations, and financial condition.

RISKS RELATED TO OUR BUSINESS — GENERAL

We operate in a highly competitive industry, and if we are not able to compete effectively, our business and operating results will be harmed.

The provision by third parties of revenue cycle services to medical practices has historically been dominated by small service providers who offer highly individualized services and a high degree of specialized knowledge applicable in many cases to a limited medical specialty, a limited set of payers, or a limited geographical area. We anticipate that the software, statistical, and database tools that are available to such service providers will continue to become more sophisticated and effective and that demand for our services could be adversely affected.

Revenue cycle software for medical practices has historically been dominated by large, well-financed and technologically sophisticated entities that have focused on software solutions. Some of these entities are now offering "on-demand" services or a "software-as-a-service" model under which software is centrally administered, and administrative services may be provided on a vendor basis. The size, financial strength, and breadth of offerings of these entities is increasing as a result of continued consolidation in both the information technology and health care industries. We expect large integrated technology companies to become more active in our markets, both through acquisition and internal investment. As costs fall and technology improves, increased market saturation may change the competitive landscape in favor of competitors with greater scale than we possess.

Some of our current large competitors, such as GE Healthcare, Sage Software Healthcare, Inc., Allscripts-Misys Healthcare Solutions, Inc., Quality Systems, Inc., Siemens Medical Solutions USA, Inc., and McKesson Corp. have greater name recognition, longer operating histories, and significantly greater resources than we do. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or client requirements. In addition, current and potential competitors have established, and may in the future establish, cooperative relationships with vendors of complementary products, technologies, or services to increase the availability of their products to the marketplace. Current or future competitors may consolidate to improve the breadth of their products, directly competing with our integrated offerings. Accordingly, new competitors or alliances may emerge that have greater market share, larger client bases, more widely adopted proprietary technologies, broader offerings, greater marketing expertise, greater financial resources, and larger sales forces than we have, which could put us at a competitive disadvantage. Further, in light of these advantages, even if our services are more effective than the product or service offerings of our competitors, current or potential clients might accept competitive products and services in lieu of purchasing our services. Increased competition is likely to result in pricing pressures, which could negatively impact our sales, profitability, or market share. In addition to new niche vendors, who offer stand-alone products and services, we face competition from existing enterprise vendors, including those currently focused on software solutions, which have information systems in place with clients in our target market. These existing enterprise vendors may now, or in the future, offer or promise products or services with less functionality than our services, but that offer ease of integration with existing systems and that leverage existing vendor relationships.

The market for Internet-based medical business services may not develop substantially further or develop more slowly than we expect, harming the growth of our business.

The market for Internet-based medical business services is still relatively new and narrowly based, and it is uncertain whether these services will achieve and sustain the high levels of demand and market acceptance we anticipate. Our success will depend to a substantial extent on the willingness of enterprises, large and small, to

increase their use of on-demand business services in general, and for their revenue, clinical and patient cycles in particular. Many enterprises have invested substantial personnel and financial resources to integrate established enterprise software into their businesses, and therefore may be reluctant or unwilling to switch to an on-demand application service. Furthermore, some enterprises may be reluctant or unwilling to use on-demand application services, because they have concerns regarding the risks associated with security capabilities, among other things, of the technology delivery model associated with these services. If enterprises do not perceive the benefits of our services, then the market for these services may not expand as much or develop as quickly as we expect, either of which would significantly adversely affect our business, financial condition, or operating results.

If we do not continue to innovate and provide services that are useful to users, we may not remain competitive, and our revenues and operating results could suffer.

Our success depends on providing services that the medical community uses to improve business performance and quality of service to patients. Our competitors are constantly developing products and services that may become more efficient or appealing to our clients. As a result, we must continue to invest significant resources in research and development in order to enhance our existing services and introduce new high-quality services that clients will want. If we are unable to predict user preferences or industry changes, or if we are unable to modify our services on a timely basis, we may lose clients. Our operating results would also suffer if our innovations are not responsive to the needs of our clients, are not appropriately timed with market opportunity, or are not effectively brought to market. As technology continues to develop, our competitors may be able to offer results that are, or that are perceived to be, substantially similar to or better than those generated by our services. This may force us to compete on additional service attributes and to expend significant resources in order to remain competitive.

Failure to manage our rapid growth effectively could increase our expenses, decrease our revenue, and prevent us from implementing our business strategy.

We have been experiencing a period of rapid growth. To manage our anticipated future growth effectively, we must continue to maintain, and may need to enhance, our information technology infrastructure and financial and accounting systems and controls, as well as manage expanded operations in geographically distributed locations. We also must attract, train, and retain a significant number of qualified sales and marketing personnel, professional services personnel, software engineers, technical personnel, and management personnel. Failure to manage our rapid growth effectively could lead us to over-invest or under-invest in technology and operations; result in weaknesses in our infrastructure, systems, or controls; give rise to operational mistakes, losses, or loss of productivity or business opportunities; and result in loss of employees and reduced productivity of remaining employees. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new services. If our management is unable to effectively manage our growth, our expenses may increase more than expected, our revenue could decline or may grow more slowly than expected, and we may be unable to implement our business strategy.

We may be unable to adequately protect, and we may incur significant costs in enforcing, our intellectual property and other proprietary rights.

Our success depends in part on our ability to enforce our intellectual property and other proprietary rights. We rely upon a combination of trademark, trade secret, copyright, patent, and unfair competition laws, as well as license and access agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. In addition, we attempt to protect our intellectual property and proprietary information by requiring certain of our employees and consultants to enter into confidentiality, noncompetition, and assignment of inventions agreements. Our attempts to protect our intellectual property may be challenged by others or invalidated through administrative process or litigation. While we have two issued U.S. patent and have sixteen more U.S. patent applications and seven foreign patent applications pending as of December 31, 2011, we may be unable to obtain further meaningful patent protection for our technology. In addition, any patents issued in the future may not provide us with any competitive advantages or may be successfully challenged by third parties.

Agreement terms that address non-competition are difficult to enforce in many jurisdictions and may not be enforceable in any particular case. To the extent that our intellectual property and other proprietary rights are not adequately protected, third parties might gain access to our proprietary information, develop and market products or services similar to ours, or use trademarks similar to ours, each of which could materially harm our business. Existing U.S. federal and state intellectual property laws offer only limited protection. Moreover, the laws of other countries in which we now or may in the future conduct operations or contract for services may afford little or no effective protection of our intellectual property. Further, our platform incorporates open source software components that are licensed to us under various public domain licenses. While we believe that we have complied with our obligations under the various applicable licenses for open source software that we use, there is little or no legal precedent governing the interpretation of many of the terms of certain of these licenses, and therefore the potential impact of such terms on our business is somewhat unknown. The failure to adequately protect our intellectual property and other proprietary rights could materially harm our business.

In addition, if we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, the proceedings could be burdensome and expensive, even if we were to prevail. Any litigation that may be necessary in the future could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results, or financial condition.

We may be sued by third parties for alleged infringement of their proprietary rights.

The software and Internet industries are characterized by the existence of a large number of patents, trademarks, and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. Moreover, our business involves the systematic gathering and analysis of data about the requirements and behaviors of payers and other third parties, some or all of which may be claimed to be confidential or proprietary. We have received in the past, and may receive in the future, communications from third parties claiming that we have infringed on the intellectual property rights of others. For example, in 2010 a complaint was filed by Prompt Medical Systems, L.P. naming us and several other defendants alleging infringement of its patent with a listed issue date in 1996 entitled “Method for Computing Current Procedural Terminology Codes from Physician Generated Documentation.” For additional information regarding this litigation, see Part I, Item 3, “Legal Proceedings.” Our technologies may not be able to withstand such third-party claims of rights against their use. Any intellectual property claims, with or without merit, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, and require us to pay monetary damages or enter into royalty or licensing agreements. In addition, many of our contracts contain warranties with respect to intellectual property rights, and some require us to indemnify our clients for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling on such a claim.

Moreover, any settlement or adverse judgment resulting from such a claim could require us to pay substantial amounts of money or obtain a license to continue to use the technology or information that is the subject of the claim, or otherwise restrict or prohibit our use of the technology or information. There can be no assurance that we would be able to obtain a license on commercially reasonable terms, if at all, from third parties asserting an infringement claim; that we would be able to develop alternative technology on a timely basis, if at all; or that we would be able to obtain a license to use a suitable alternative technology to permit us to continue offering, and our clients to continue using, our affected services. Accordingly, an adverse determination could prevent us from offering our services to others. In addition, we may be required to indemnify our clients for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling for such a claim.

Current and future litigation against us could be costly and time-consuming to defend.

We may from time to time be subject to legal proceedings and claims that arise in the ordinary course of business, such as claims brought by our clients in connection with commercial disputes and employment claims

made by our current or former employees. Claims may also be asserted by or on behalf of a variety of other parties, including patients of our physician clients, government agencies, or stockholders. Any litigation involving us may result in substantial costs and may divert management's attention and resources, which may seriously harm our business, overall financial condition, and operating results. Insurance may not cover existing or future claims, be sufficient to fully compensate us for one or more of such claims, or continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our operating results and leading analysts or potential investors to reduce their expectations of our performance resulting in a reduction in the trading price of our stock.

RISKS RELATED TO OUR BUSINESS — OPERATIONS

We depend upon two third-party service providers for important processing functions. If either of these third-party providers does not fulfill its contractual obligations or chooses to discontinue its services, our business and operations could be disrupted and our operating results would be harmed.

We have entered into service agreements with International Business Machines Corporation and Vision Business Process Solutions Inc., a subsidiary of Dell, Inc. (formerly Perot Systems Corporation), to provide data entry and other services from facilities located in India and the Philippines to support our client service operations. Among other things, these providers process critical claims data and clinical documents. If these services fail or are of poor quality, our business, reputation, and operating results could be harmed. Failure of either service provider to perform satisfactorily could result in client dissatisfaction, disrupt our operations, and adversely affect operating results. With respect to these service providers, we have significantly less control over the systems and processes involved than if we maintained and operated them ourselves, which increases our risk. In some cases, functions necessary to our business are performed on proprietary systems and software to which we have no access. If we need to find an alternative source for performing these functions, we may have to expend significant money, resources, and time to develop the alternative, and if this development is not accomplished in a timely manner and without significant disruption to our business, we may be unable to fulfill our responsibilities to clients or the expectations of clients, with the attendant potential for liability claims and a loss of business reputation, loss of ability to attract or maintain clients, and reduction of our revenue or operating margin.

Various risks could affect our worldwide operations, exposing us to significant costs.

We conduct operations in the United States, India, and the Philippines, either directly or through our service providers. Such worldwide operations expose us to potential operational disruptions and costs as a result of a wide variety of events, including local inflation or economic downturn, currency exchange fluctuations, political turmoil, terrorism, labor issues, natural disasters, and pandemics. Any such disruptions or costs could have a negative effect on our ability to provide our services or meet our contractual obligations, the cost of our services, client satisfaction, our ability to attract or maintain clients, and, ultimately, our profits.

Because competition for our target employees is intense, we may not be able to attract and retain the highly skilled employees we need to support our planned growth.

To continue to execute on our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for senior sales executives and engineers with high levels of experience in designing and developing software and Internet-related services. We may not be successful in attracting and retaining qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. In addition, in making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the equity awards they are to receive in connection with their employment. Volatility in the price of our stock may, therefore, adversely affect our ability to attract or retain key employees. Furthermore, the requirements to expense equity awards may discourage us from granting

the size or type of equity awards that job candidates require to join our company. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

If we acquire companies or technologies in the future, they could prove difficult to integrate, disrupt our business, dilute stockholder value, and adversely affect our operating results and the value of our common stock.

As part of our business strategy, we may acquire, enter into joint ventures with, or make investments in complementary companies, services, and technologies in the future. Acquisitions and investments involve numerous risks, including:

- difficulties in identifying and acquiring products, technologies, or businesses that will help our business;
- difficulties in integrating operations, technologies, services, and personnel;
- diversion of financial and managerial resources from existing operations;
- the risk of entering new markets in which we have little to no experience;
- risks related to the assumption of known and unknown liabilities;
- the risk of write-offs and the amortization of expenses related intangible assets and
- delays in client purchases due to uncertainty and the inability to maintain relationships with clients of the acquired businesses.

As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such acquisitions, we may incur costs in excess of what we anticipate, and management resources and attention may be diverted from other necessary or valuable activities.

RISKS RELATED TO OUR BUSINESS — FINANCIALS

Our operating results have in the past fluctuated and may continue to fluctuate significantly, and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially.

Our operating results are likely to fluctuate, and if we fail to meet or exceed the expectations of securities analysts or investors, the trading price of our common stock could decline. Moreover, our stock price may be based on expectations of our future performance that may be unrealistic or that may not be met. Some of the important factors that could cause our revenues and operating results to fluctuate from quarter to quarter include:

- the extent to which our services achieve or maintain market acceptance;
- our ability to introduce new services and enhancements to our existing services on a timely basis;
- new competitors and the introduction of enhanced products and services from new or existing competitors;
- the length of our contracting and implementation cycles;
- changes in Client Days in Accounts Receivable;
- the severity, length, and timing of seasonal and pandemic illnesses;
- seasonal declines in the use of physician services, generally in the late summer and during the holiday season, which lead to a decline in collections by our physician clients about 30 to 50 days later;
- the financial condition of our current and potential clients;

- changes in client budgets and procurement policies;
- the amount and timing of our investment in research and development activities;
- the amount and timing of our investment in sales and marketing activities;
- technical difficulties or interruptions in our services;
- our ability to hire and retain qualified personnel and maintain an adequate rate of expansion of our sales force;
- changes in the regulatory environment related to health care;
- regulatory compliance costs;
- the timing, size, and integration success of potential future acquisitions; and
- unforeseen legal expenses, including litigation and settlement costs.

Many of these factors are not within our control, and the occurrence of one or more of them might cause our operating results to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenues and operating results may not be meaningful and should not be relied upon as an indication of future performance.

A significant portion of our operating expense is relatively fixed in nature, and planned expenditures are based in part on expectations regarding future revenue and profitability. Accordingly, unexpected revenue shortfalls, lower than expected revenue increases as a result of planned expenditures, and longer than expected impact on profitability and margins as a result of planned revenue expenditures may decrease our gross margins and profitability and could cause significant changes in our operating results from quarter to quarter. In addition, our future quarterly operating results may fluctuate and may not meet the expectations of securities analysts or investors. If this occurs, the trading price of our common stock could fall substantially either suddenly or over time.

If the revenue of our clients decreases, or if our clients cancel or elect not to renew their contracts, our revenue will decrease.

Under most of our client contracts, we base our charges on a percentage of the revenue that the client realizes while using our services. Many factors may lead to decreases in client revenue, including:

- interruption of client access to our system for any reason;
- our failure to provide services in a timely or high-quality manner;
- failure of our clients to adopt or maintain effective business practices;
- actions by third-party payers of medical claims to reduce reimbursement;
- government regulations and government or other payer actions reducing or delaying reimbursement; and
- reduction of client revenue resulting from increased competition or other changes in the marketplace for physician services.

The current economic situation may give rise to several of these factors. For example, patients who have lost health insurance coverage due to unemployment or who face increased deductibles imposed by financially struggling employers or insurers could reduce the number of visits those patients make to our physician clients. Patients without health insurance or with reduced coverage may also default on their payment obligations at a higher rate than patients with coverage. Added financial stress on our clients could lead to their acquisition or bankruptcy, which could cause the termination of some of our service relationships. Further, despite the cost benefits that we believe our services provide, prospective clients may wish to delay contract decisions due to

implementation costs or be reluctant to make any material changes in their established business methods in the current economic climate. With a reduction in tax revenue, state and federal government health care programs, including reimbursement programs such as Medicaid, may be reduced or eliminated, which could negatively impact the payments that our clients receive. Also, although we currently estimate our expected customer life to be twelve years, this is only an estimate and there can be no assurance that our clients will elect to renew their contracts for this period of time. Our clients typically purchase one-year contracts that, in most cases, may be terminated on 90 days notice without cause. If our clients' revenue decreases for any of the above or other reasons, or if our clients cancel or elect not to renew their contracts, our revenue will decrease.

If we are required to collect sales and use taxes on the services we sell in additional jurisdictions, we may be subject to liability for past sales and incur additional related costs and expenses, and our future sales may decrease.

We may lose sales or incur significant expenses should states be successful in imposing state sales and use taxes on our services. A successful assertion by one or more states that we should collect sales or other taxes on the sale of our services could result in substantial tax liabilities for past sales, decrease our ability to compete with traditional retailers, and otherwise harm our business. Each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that may change over time. We review these rules and regulations periodically and, when we believe our services are subject to sales and use taxes in a particular state, voluntarily engage state tax authorities in order to determine how to comply with their rules and regulations. We cannot assure you that we will not be subject to sales and use taxes or related penalties for past sales in states where we believe no compliance is necessary.

Vendors of services, like us, are typically held responsible by taxing authorities for the collection and payment of any applicable sales and similar taxes. If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our services, we may be liable for past taxes in addition to taxes going forward. Liability for past taxes may also include very substantial interest and penalty charges. Our client contracts provide that our clients must pay all applicable sales and similar taxes. Nevertheless, clients may be reluctant to pay back taxes and may refuse responsibility for interest or penalties associated with those taxes. If we are required to collect and pay back taxes and the associated interest and penalties, and if our clients fail or refuse to reimburse us for all or a portion of these amounts, we will have incurred unplanned expenses that may be substantial. Moreover, imposition of such taxes on our services going forward will effectively increase the cost of such services to our clients and may adversely affect our ability to retain existing clients or to gain new clients in the areas in which such taxes are imposed.

We may also become subject to tax audits or similar procedures in states where we already pay sales and use taxes. The incurrence of additional accounting and legal costs and related expenses in connection with, and the assessment of taxes, interest, and penalties as a result of, audits, litigation, or otherwise could be materially adverse to our current and future results of operations and financial condition.

As a result of our variable sales and implementation cycles, we may be unable to recognize revenue to offset expenditures, which could result in fluctuations in our quarterly results of operations or otherwise harm our future operating results.

The sales cycle for our services can be variable, typically ranging from three to five months from initial contact to contract execution. During the sales cycle, we expend time and resources, and we do not recognize any revenue to offset such expenditures. Our implementation cycle is also variable, typically ranging from three to five months from contract execution to completion of implementation. Some of our new-client set-up projects are complex and require a lengthy delay and significant implementation work. Each client's situation is different, and unanticipated difficulties and delays may arise as a result of failure by us or by the client to meet our respective implementation responsibilities. In some cases, especially those involving larger clients, the sales cycle and the implementation cycle may exceed the typical ranges by substantial margins. During the

implementation cycle, we expend substantial time, effort, and financial resources implementing our services, but accounting principles do not allow us to recognize the resulting revenue until the service has been implemented, at which time we begin recognition of implementation revenue over an expected attribution period of the longer of the estimated expected customer life, currently twelve years, or the contract term.

After a client contract is signed, we provide an implementation process for the client during which appropriate connections and registrations are established and checked, data is loaded into our athenaNet system, data tables are set up, and practice personnel are given initial training. The length and details of this implementation process vary widely from client to client. Typically, implementation of larger clients takes longer than implementation for smaller clients. Implementation for a given client may be cancelled. Our contracts typically provide that they can be terminated for any reason or for no reason in 90 days. Despite the fact that we typically require a deposit in advance of implementation, some clients have cancelled before our services have been started. In addition, implementation may be delayed or the target dates for completion may be extended into the future for a variety of reasons, including the needs and requirements of the client, delays with payer processing, and the volume and complexity of the implementations awaiting our work. If implementation periods are extended, our provision of the revenue cycle, clinical cycle, or patient cycle services upon which we realize most of our revenues will be delayed, and our financial condition may be adversely affected. In addition, cancellation of any implementation after it has begun may involve loss to us of time, effort, and expenses invested in the cancelled implementation process and lost opportunity for implementing paying clients in that same period of time.

These factors may contribute to substantial fluctuations in our quarterly operating results, particularly in the near term and during any period in which our sales volume is relatively low. As a result, in future quarters our operating results could fall below the expectations of securities analysts or investors, in which event our stock price would likely decrease.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which is periodically revised or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse impact on our results of operations and financial condition.

RISKS RELATED TO OUR SERVICE OFFERINGS

Our proprietary software or our services may not operate properly, which could damage our reputation, give rise to claims against us, or divert application of our resources from other purposes, any of which could harm our business and operating results.

Proprietary software development is time-consuming, expensive, and complex. Unforeseen difficulties can arise. We may encounter technical obstacles, and it is possible that we discover additional problems that prevent our proprietary athenaNet application from operating properly. If athenaNet does not function reliably or fails to achieve client expectations in terms of performance, clients could assert liability claims against us and/or attempt to cancel their contracts with us. This could damage our reputation and impair our ability to attract or maintain clients.

Moreover, information services as complex as those we offer have in the past contained, and may in the future develop or contain, undetected defects or errors. We cannot assure you that material performance problems or defects in our services will not arise in the future. Errors may result from receipt, entry, or interpretation of patient information or from interface of our services with legacy systems and data that we did

not develop and the function of which is outside of our control. Despite testing, defects or errors may arise in our existing or new software or service processes. Because changes in payer requirements and practices are frequent and sometimes difficult to determine except through trial and error, we are continuously discovering defects and errors in our software and service processes compared against these requirements and practices. These defects and errors and any failure by us to identify and address them could result in loss of revenue or market share, liability to clients or others, failure to achieve market acceptance or expansion, diversion of development resources, injury to our reputation, and increased service and maintenance costs. Defects or errors in our software and service processes might discourage existing or potential clients from purchasing services from us. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability may be substantial and could adversely affect our operating results.

In addition, clients relying on our services to collect, manage, and report clinical, business, and administrative data may have a greater sensitivity to service errors and security vulnerabilities than clients of software products in general. We market and sell services that, among other things, provide information to assist care providers in tracking and treating ill patients. Any operational delay in or failure of our technology or service processes may result in the disruption of patient care and could cause harm to patients and thereby harm our business and operating results.

Our clients or their patients may assert claims against us alleging that they suffered damages due to a defect, error, or other failure of our software or service processes. A product liability claim or errors or omissions claim could subject us to significant legal defense costs and adverse publicity, regardless of the merits or eventual outcome of such a claim.

If our security measures are breached or fail, and unauthorized access is obtained to a client's data, our services may be perceived as not being secure, clients may curtail or stop using our services, and we may incur significant liabilities.

Our services involve the web-based storage and transmission of clients' proprietary information and protected health information of patients. Because of the sensitivity of this information, security features of our software are very important. From time to time we may detect vulnerabilities in our systems, which, even if they do not result in a security breach, may reduce customer confidence and require substantial resources to address. If our security measures are breached or fail as a result of third-party action, employee error, malfeasance, insufficiency, defective design, or otherwise, someone may be able to obtain unauthorized access to client or patient data. As a result, our reputation could be damaged, our business may suffer, and we could face damages for contract breach, penalties for violation of applicable laws or regulations, and significant costs for remediation and efforts to prevent future occurrences. We rely upon our clients as users of our system for key activities to promote security of the system and the data within it, such as administration of client-side access credentialing and control of client-side display of data. On occasion, our clients have failed to perform these activities. Failure of clients to perform these activities may result in claims against us that this reliance was misplaced, which could expose us to significant expense and harm to our reputation. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and clients. In addition, our clients may authorize or enable third parties to access their client data or the data of their patients on our systems. Because we do not control such access, we cannot ensure the complete propriety of that access or integrity or security of such data in our systems.

Failure by our clients to obtain proper permissions and waivers may result in claims against us or may limit or prevent our use of data, which could harm our business.

We require our clients to provide necessary notices and to obtain necessary permissions and waivers for use and disclosure of the information that we receive, and we require contractual assurances from them that they

have done so and will do so. If they do not obtain necessary permissions and waivers, then our use and disclosure of information that we receive from them or on their behalf may be limited or prohibited by state or federal privacy laws or other laws. This could impair our functions, processes, and databases that reflect, contain, or are based upon such data and may prevent use of such data. In addition, this could interfere with or prevent creation or use of rules, and analyses or limit other data-driven activities that benefit us. Moreover, we may be subject to claims or liability for use or disclosure of information by reason of lack of valid notice, permission, or waiver. These claims or liabilities could subject us to unexpected costs and adversely affect our operating results.

Various events could interrupt clients' access to athenaNet, exposing us to significant costs.

The ability to access athenaNet is critical to our clients' administering care, cash flow, and business viability. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation: (i) power loss and telecommunications failures; (ii) fire, flood, hurricane, and other natural disasters; (iii) software and hardware errors, failures, or crashes in our own systems or in other systems; and (iv) computer viruses, hacking, and similar disruptive problems in our own systems and in other systems. We attempt to mitigate these risks through various means, including redundant infrastructure, disaster recovery plans, business continuity plans, separate test systems, and change control and system security measures, but our precautions will not protect against all potential problems. If clients' access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims by clients or their patients, particularly if the access interruption is associated with problems in the timely delivery of funds due to clients or medical information relevant to patient care. Our plans for disaster recovery and business continuity rely upon third-party providers of related services, and if those vendors fail us at a time that our systems are not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our obligations. Any significant instances of system downtime could negatively affect our reputation and ability to retain clients and sell our services, which would adversely impact our revenues.

In addition, retention and availability of patient care and physician reimbursement data are subject to federal and state laws governing record retention, accuracy, and access. Some laws impose obligations on our clients and on us to produce information to third parties and to amend or expunge data at their direction. Our failure to meet these obligations may result in liability that could increase our costs and reduce our operating results.

Interruptions or delays in service from our third-party data-hosting facilities could impair the delivery of our services and harm our business.

We currently serve our clients from a third-party data-hosting facility located in Bedford, Massachusetts, operated by Digital 55 Middlesex, LLC (as successor to Sentinel Properties-Bedford, LLC). In addition, in December 2009 we signed a contract with a major provider of disaster recovery services, SunGard Availability Services, LP, to store our disaster recovery plans, and provide disaster recovery testing services. In the case of a significant event at our primary data center, we could become operational in a reasonable timeframe at our backup data center.

However, these facilities are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures, and similar events. They are also subject to break-ins, sabotage, intentional acts of vandalism, and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice, or other unanticipated problems at both facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our services could be interrupted.

We rely on Internet infrastructure, bandwidth providers, data center providers, other third parties, and our own systems for providing services to our users, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation and negatively impact our relationships with users, adversely affecting our brand and our business.

Our ability to deliver our Internet- and telecommunications-based services is dependent on the development and maintenance of the infrastructure of the Internet and other telecommunications services by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, and security for providing reliable Internet access and services and reliable telephone, facsimile, and pager systems. Our services are designed to operate without interruption in accordance with our service level commitments. However, we have experienced and expect that we will in the future experience interruptions and delays in services and availability from time to time. We rely on internal systems as well as third-party vendors, including data center, bandwidth, and telecommunications equipment providers, to provide our services. We do not maintain redundant systems or facilities for some of these services. In the event of a catastrophic event with respect to one or more of these systems or facilities, we may experience an extended period of system unavailability, which could negatively impact our relationship with users. To operate without interruption, both we and our service providers must guard against:

- damage from fire, power loss, and other natural disasters;
- communications failures;
- software and hardware errors, failures, and crashes;
- security breaches, computer viruses, and similar disruptive problems; and
- other potential interruptions.

Any disruption in the network access, telecommunications, or co-location services provided by these third-party providers or any failure of or by these third-party providers or our own systems to handle current or higher volume of use could significantly harm our business. We exercise limited control over these third-party vendors, which increases our vulnerability to problems with services they provide.

Any errors, failures, interruptions, or delays experienced in connection with these third-party technologies and information services or our own systems could negatively impact our relationships with users and adversely affect our business and could expose us to third-party liabilities. Although we maintain insurance for our business, the coverage under our policies may not be adequate to compensate us for all losses that may occur. In addition, we cannot provide assurance that we will continue to be able to obtain adequate insurance coverage at an acceptable cost.

The reliability and performance of the Internet may be harmed by increased usage or by denial-of-service attacks. The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the availability of the Internet to us for delivery of our Internet-based services.

We rely on third-party computer hardware and software that may be difficult to replace or that could cause errors or failures of our services, which could damage our reputation, harm our ability to attract and maintain clients, and decrease our revenue.

We rely on computer hardware purchased or leased and software licensed from third parties in order to offer our services, including database software from Oracle Corporation and storage devices from International Business Machines Corporation and EMC Corporation. These licenses are generally commercially available on varying terms; however, it is possible that this hardware and software may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if

available, is identified, obtained, and integrated, which could harm our business. Any errors or defects in third-party hardware or software could result in errors or a failure of our services, which could damage our reputation, harm our ability to attract and maintain clients, and decrease our revenue.

We are subject to the effect of payer and provider conduct that we cannot control and that could damage our reputation with clients and result in liability claims that increase our expenses.

We offer certain electronic claims submission services for which we rely on content from clients, payers, and others. While we have implemented certain features and safeguards designed to maximize the accuracy and completeness of claims content, these features and safeguards may not be sufficient to prevent inaccurate claims data from being submitted to payers. Should inaccurate claims data be submitted to payers, we may experience poor operational results and may be subject to liability claims, which could damage our reputation with clients and result in liability claims that increase our expenses.

If our services fail to provide accurate and timely information, or if our content or any other element of any of our services is associated with faulty clinical decisions or treatment, we could have liability to clients, clinicians, or patients, which could adversely affect our results of operations.

Our software, content, and services are used to assist clinical decision-making and provide information about patient medical histories and treatment plans. If our software, content, or services fail to provide accurate and timely information or are associated with faulty clinical decisions or treatment, then clients, clinicians, or their patients could assert claims against us that could result in substantial costs to us, harm our reputation in the industry, and cause demand for our services to decline.

Our proprietary athenaClinicals service is utilized in clinical decision-making, provides access to patient medical histories, and assists in creating patient treatment plans, including the issuance of prescription drugs. If our athenaClinicals service fails to provide accurate and timely information, or if our content or any other element of that service is associated with faulty clinical decisions or treatment, we could have liability to clients, clinicians, or patients.

The assertion of such claims and ensuing litigation, regardless of its outcome, could result in substantial cost to us, divert management's attention from operations, damage our reputation, and decrease market acceptance of our services. We attempt to limit by contract our liability for damages and to require that our clients assume responsibility for medical care and approve key system rules, protocols, and data. Despite these precautions, the allocations of responsibility and limitations of liability set forth in our contracts may not be enforceable, be binding upon patients, or otherwise protect us from liability for damages.

We maintain general liability and insurance coverage, but this coverage may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims against us. In addition, the insurer might disclaim coverage as to any future claim. One or more large claims could exceed our available insurance coverage.

Our proprietary software may contain errors or failures that are not detected until after the software is introduced or updates and new versions are released. It is challenging for us to test our software for all potential problems because it is difficult to simulate the wide variety of computing environments or treatment methodologies that our clients may deploy or rely upon. From time to time we have discovered defects or errors in our software, and such defects or errors can be expected to appear in the future. Defects and errors that are not timely detected and remedied could expose us to risk of liability to clients, clinicians, and patients and cause delays in introduction of new services, result in increased costs and diversion of development resources, require design modifications, or decrease market acceptance or client satisfaction with our services.

If any of these risks occur, they could materially adversely affect our business, financial condition, or results of operations.

We may be liable for use of incorrect or incomplete data that we provide, which could harm our business, financial condition, and results of operations.

We store and display data for use by health care providers in treating patients. Our clients or third parties provide us with most of these data. If these data are incorrect or incomplete or if we make mistakes in the capture or input of these data, adverse consequences, including death, may occur and give rise to product liability and other claims against us. In addition, a court or government agency may take the position that our storage and display of health information exposes us to personal injury liability or other liability for wrongful delivery or handling of health care services or erroneous health information. While we maintain insurance coverage, we cannot assure that this coverage will prove to be adequate or will continue to be available on acceptable terms, if at all. Even unsuccessful claims could result in substantial costs and diversion of management resources. A claim brought against us that is uninsured or under-insured could harm our business, financial condition, and results of operations.

RISKS RELATED TO REGULATION

Government regulation of health care creates risks and challenges with respect to our compliance efforts and our business strategies.

The health care industry is highly regulated and is subject to changing political, legislative, regulatory, and other influences. Existing and new laws and regulations affecting the health care industry could create unexpected liabilities for us, cause us to incur additional costs, and restrict our operations. Many health care laws are complex, and their application to specific services and relationships may not be clear. In particular, many existing health care laws and regulations, when enacted, did not anticipate the health care information services that we provide, and these laws and regulations may be applied to our services in ways that we do not anticipate. Our failure to accurately anticipate the application of these laws and regulations, or our other failure to comply, could create liability for us, result in adverse publicity, and negatively affect our business. Some of the risks we face from health care regulation are described below:

False or Fraudulent Claim Laws. There are numerous federal and state laws that forbid submission of false information, or the failure to disclose information, in connection with submission and payment of physician claims for reimbursement. In some cases, these laws also forbid abuse in connection with such submission and payment. Any failure of our services to comply with these laws and regulations could result in substantial liability (including, but not limited to, criminal liability), adversely affect demand for our services, and force us to expend significant capital, research and development, and other resources to address the failure. Errors by us or our systems with respect to entry, formatting, preparation, or transmission of claim information may be determined or alleged to be in violation of these laws and regulations. Any determination by a court or regulatory agency that our services violate these laws could subject us to civil or criminal penalties, invalidate all or portions of some of our client contracts, require us to change or terminate some portions of our business, require us to refund portions of our services fees, cause us to be disqualified from serving clients doing business with government payers, and have an adverse effect on our business.

In most cases where we are permitted to do so, we calculate charges for our services based on a percentage of the collections that our clients receive as a result of our services. To the extent that violations or liability for violations of these laws and regulations require intent, it may be alleged that this percentage calculation provides us or our employees with incentive to commit or overlook fraud or abuse in connection with submission and payment of reimbursement claims. The U.S. Centers for Medicare and Medicaid Services has stated that it is concerned that percentage-based billing services may encourage billing companies to commit or to overlook fraudulent or abusive practices.

In addition, we may contract with third parties that offer software relating to the selection or verification of codes used to identify and classify the services for which reimbursement is sought. Submission of codes that do not accurately reflect the services provided or the location or method of their provision may constitute a violation of false or fraudulent claims laws. Our ability to comply with these laws depends on the coding decisions made by our clients and the accuracy of our vendors' software and services in suggesting possible codes to our clients and verifying that proper codes have been selected.

HIPAA and other Health Privacy Regulations. There are numerous federal and state laws related to patient privacy. In particular, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, includes privacy standards that protect individual privacy by limiting the uses and disclosures of individually identifiable health information and implementing data security standards that require covered entities to implement administrative, physical, and technological safeguards to ensure the confidentiality, integrity, availability, and security of individually identifiable health information in electronic form. HIPAA also specifies formats that must be used in certain electronic transactions, such as claims, payment advice, and eligibility inquiries. Because we translate electronic transactions to and from HIPAA-prescribed electronic formats and other forms, we are a clearinghouse and, as such, a covered entity. In addition, our clients are also covered entities and are mandated by HIPAA to enter into written agreements with us — known as business associate agreements — that require us to safeguard individually identifiable health information. Business associate agreements typically include:

- a description of our permitted uses of individually identifiable health information;
- a covenant not to disclose the information except as permitted under the agreement and to make our subcontractors, if any, subject to the same restrictions;
- assurances that appropriate administrative, physical, and technical safeguards are in place to prevent misuse of the information;
- an obligation to report to our client any use or disclosure of the information other than as provided for in the agreement;
- a prohibition against our use or disclosure of the information if a similar use or disclosure by our client would violate the HIPAA standards;
- the ability of our clients to terminate the underlying support agreement if we breach a material term of the business associate agreement and are unable to cure the breach;
- the requirement to return or destroy all individually identifiable health information at the end of our support agreement; and
- access by the Department of Health and Human Services to our internal practices, books, and records to validate that we are safeguarding individually identifiable health information.

We may not be able to adequately address the business risks created by HIPAA implementation. Furthermore, we are unable to predict what changes to HIPAA or other laws or regulations might be made in the future or how those changes could affect our business or the costs of compliance. For example, the provisions of the HITECH Act and the regulations issued under it have provided and are expected to provide clarification of certain aspects of both the Privacy and Security Rules, expansion of the disclosure requirements for a breach of the Security Rule, and strengthening of the civil and criminal penalties for failure to comply with HIPAA. In addition, ONCHIT is coordinating the ongoing development of national standards for creating an interoperable health information technology infrastructure based on the widespread adoption of electronic health records in the health care sector. We are unable to predict what, if any, impact the changes in such standards will have on our compliance costs or our services.

In addition, some payers and clearinghouses with which we conduct business interpret HIPAA transaction requirements differently than we do. Where clearinghouses or payers require conformity with their interpretations as a condition of effecting transactions, we seek to comply with their interpretations.

The HIPAA transaction standards include proper use of procedure and diagnosis codes. Since these codes are selected or approved by our clients, and since we do not verify their propriety, some of our capability to comply with the transaction standards is dependent on the proper conduct of our clients.

Among our services, we provide telephone reminder services to patients, Internet- and telephone-based access to medical test results, pager and email notification to practices of patient calls, and patient call answering services. We believe that reasonable efforts to prevent disclosure of individually identifiable health information have been and are being taken in connection with these services, including the use of multiple-password security. However, any failure of our clients to provide accurate contact information for their patients or physicians or any breach of our telecommunications systems could result in a disclosure of individually identifiable health information.

In addition to the HIPAA Privacy and Security Rules and the HITECH Act requirements, most states have enacted patient confidentiality laws that protect against the disclosure of confidential medical and other personally identifiable information, and many states have adopted or are considering further legislation in this area, including privacy safeguards, security standards, and data security breach notification requirements. Such state laws, if more stringent than HIPAA and HITECH Act requirements, are not preempted by the federal requirements, and we are required to comply with them.

Failure by us to comply with any of the federal and state standards regarding patient privacy may subject us to penalties, including civil monetary penalties and, in some circumstances, criminal penalties. In addition, such failure may injure our reputation and adversely affect our ability to retain clients and attract new clients.

We are subject to a variety of other regulatory schemes, including:

- *Anti-Kickback and Anti-Bribery Laws*. There are federal and state laws that govern patient referrals, physician financial relationships, and inducements to health care providers and patients. For example, the federal health care programs' anti-kickback law prohibits any person or entity from offering, paying, soliciting, or receiving anything of value, directly or indirectly, for the referral of patients covered by Medicare, Medicaid, and other federal health care programs or the leasing, purchasing, ordering, or arranging for or recommending the lease, purchase, or order of any item, good, facility, or service covered by these programs. Many states also have similar anti-kickback laws that are not necessarily limited to items or services for which payment is made by a federal health care program. Moreover, both federal and state laws forbid bribery and similar behavior. Any determination by a state or federal regulatory agency that any of our activities or those of our clients, vendors, or channel partners violate any of these laws could subject us to civil or criminal penalties, require us to change or terminate some portions of our business, require us to refund a portion of our service fees, disqualify us from providing services to clients doing business with government programs, and have an adverse effect on our business. For example, one aspect of our athenaCoordinator service is the preparation and submission of electronic orders from providers to other participants in the health care system (e.g., hospitals, labs, and specialists). As the recipients of those orders will in certain instances pay us for the submission of accurate, complete, and readable orders instead of the handwritten and often incomplete orders traditionally submitted, our service could potentially be seen as providing referrals to the order recipients in exchange for payment. Although the Office of Inspector General issued an Advisory Opinion in November 2011 stating that our receipt of payments in such instances would not violate federal anti-kickback laws, we cannot predict whether changes in the law or our services might lead to a challenge of the legality of those services by government regulators. Even an unsuccessful challenge by regulatory authorities of our activities could result in adverse publicity and could require a costly response from us.
- *Anti-Referral Laws*. There are federal and state laws that forbid payment for patient referrals, patient brokering, remuneration of patients, or billing based on referrals between individuals and/or entities that have various financial, ownership, or other business relationships with health care providers. In many cases, billing for care arising from such actions is illegal. These vary widely from state to state, and one

of the federal laws — called the Stark Law — is very complex in its application. Any determination by a state or federal regulatory agency that any of our clients violate or have violated any of these laws may result in allegations that claims that we have processed or forwarded are improper. This could subject us to civil or criminal penalties, require us to change or terminate some portions of our business, require us to refund portions of our services fees, and have an adverse effect on our business. Even an unsuccessful challenge by regulatory authorities of our activities could result in adverse publicity and could require a costly response from us.

- *Corporate Practice of Medicine Laws and Fee-Splitting Laws* . Many states have laws forbidding physicians from practicing medicine in partnership with non-physicians, such as business corporations. In some states, including New York, these take the form of laws or regulations forbidding splitting of physician fees with non-physicians or others. In some cases, these laws have been interpreted to prevent business service providers from charging their physician clients on the basis of a percentage of collections or charges. We have varied our charge structure in some states to comply with these laws, which may make our services less desirable to potential clients. Any determination by a state court or regulatory agency that our service contracts with our clients violate these laws could subject us to civil or criminal penalties, invalidate all or portions of some of our client contracts, require us to change or terminate some portions of our business, require us to refund portions of our services fees, and have an adverse effect on our business. Even an unsuccessful challenge by regulatory authorities of our activities could result in adverse publicity and could require a costly response from us.
- *Anti-Assignment Laws*. There are federal and state laws that prohibit or limit assignment of claims for reimbursement from government-funded programs. In some cases, these laws have been interpreted in regulations or policy statements to limit the manner in which business service companies may handle checks or other payments for such claims and to limit or prevent such companies from charging their physician clients on the basis of a percentage of collections or charges. Any determination by a state court or regulatory agency that our service contracts with our clients violate these laws could subject us to civil or criminal penalties, invalidate all or portions of some of our client contracts, require us to change or terminate some portions of our business, require us to refund portions of our services fees, and have an adverse effect on our business. Even an unsuccessful challenge by regulatory authorities of our activities could result in adverse publicity and could require a costly response from us.
- *Prescribing Laws*. The use of our software by physicians to perform a variety of functions relating to prescriptions, including electronic prescribing, electronic routing of prescriptions to pharmacies, and dispensing of medication, is governed by state and federal law, including fraud and abuse laws, drug control regulations, and state department of health regulations. States have differing prescription format requirements, and, due in part to recent industry initiatives, federal law and the laws of all 50 states now provide a regulatory framework for the electronic transmission of prescription orders. Regulatory authorities such as the U.S. Department of Health and Human Services' Centers for Medicare and Medicaid Services may impose functionality standards with regard to electronic prescribing and EHR technologies. Any determination that we or our clients have violated prescribing laws may expose us to liability, loss of reputation, and loss of business. These laws and requirements may also increase the cost and time necessary to market new services and could affect us in other respects not presently foreseeable.
- *Electronic Health Records Laws*. A number of federal and state laws govern the use and content of electronic health record systems, including fraud and abuse laws that may affect how such technology is provided. As a company that provides EHR functionality, our systems and services must be designed in a manner that facilitates our clients' compliance with these laws. Because this is a topic of increasing state and federal regulation, we expect additional and continuing modification of the current legal and regulatory environment. We cannot predict the content or effect of possible future regulation on our business activities. The software component of our athenaClinicals service was certified as a 2011/2012 compliant Complete EHR by CCHIT, an ONC-ATCB, in accordance with the applicable certification criteria adopted by the Secretary of the U.S. Department of Health and Human Services (HHS). The 2011/2012 criteria support the Stage 1 meaningful use measures required to qualify eligible providers and

hospitals for funding under the HITECH Act. However, such certification does not represent an endorsement of our athenaClinicals service by HHS or guarantee the receipt of incentive payments. While we believe that our system is well designed in terms of function and interoperability, we cannot be certain that it will meet future requirements.

- *Claims Transmission Laws*. Our services include the manual and electronic transmission of our client's claims for reimbursement from payers. Federal and various state laws provide for civil and criminal penalties for any person who submits, or causes to be submitted, a claim to any payer (including, without limitation, Medicare, Medicaid, and any private health plans and managed care plans) that is false or that overbills or bills for items that have not been provided to the patient. Although we do not determine what is billed to a payer, to the extent that such laws apply to a service that merely transmits claims on behalf of others, we could be subject to the same civil and criminal penalties as our clients.
- *Prompt Pay Laws*. Laws in many states govern prompt payment obligations for health care services. These laws generally define claims payment processes and set specific time frames for submission, payment, and appeal steps. They frequently also define and require clean claims. Failure to meet these requirements and timeframes may result in rejection or delay of claims. Failure of our services to comply may adversely affect our business results and give rise to liability claims by clients.
- *Medical Device Laws*. The U.S. Food and Drug Administration (FDA) has promulgated a draft policy for the regulation of computer software products as medical devices under the 1976 Medical Device Amendments to the Federal Food, Drug and Cosmetic Act. In addition, in February 2011 the FDA issued a final rule regarding regulation of Medical Device Data Systems (MDDSs), which are systems that are intended to transfer, store, convert, or display medical device data. While EHRs are expressly exempted from the final rule, it is possible that future changes in our services could involve the transfer, storage, conversion, or display of medical device data. To the extent that computer software is a medical device under the policy or our software is considered an MDDS under the final rule, we, as a provider of application functionality, could be required, depending on the functionality, to:
- register and list our products with the FDA;
- notify the FDA and demonstrate substantial equivalence to other products on the market before marketing our functionality; or
- obtain FDA approval by demonstrating safety and effectiveness before marketing our functionality.

The FDA can impose extensive requirements governing pre- and post-market conditions, such as service investigation and others relating to approval, labeling, and manufacturing. In addition, the FDA can impose extensive requirements governing development controls and quality assurance processes.

Potential health care reform and new regulatory requirements placed on our software, services, and content could impose increased costs on us, delay or prevent our introduction of new services types, and impair the function or value of our existing service types.

Our services may be significantly impacted by health care reform initiatives and are subject to increasing regulatory requirements, either of which could affect our business in a multitude of ways. If substantive health care reform or applicable regulatory requirements are adopted, we may have to change or adapt our services and software to comply. Reform or changing regulatory requirements may also render our services obsolete or may block us from accomplishing our work or from developing new services. This may in turn impose additional costs upon us to adapt to the new operating environment or to further develop services or software. For example, the conversion to the ICD-10 standard for coding medical diagnoses and the Version 5010 HIPAA standard for the transmission of electronic transactions will likely cause significant disruption to our industry and consume a large amount of resources on our part. Such reforms may also make introduction of new service types more costly or more time consuming than we currently anticipate. Such changes may even prevent introduction by us of new services or make the continuation of our existing services unprofitable or impossible.

Potential additional regulation of the disclosure of health information outside the United States may adversely affect our operations and may increase our costs.

Federal or state governmental authorities may impose additional data security standards or additional privacy or other restrictions on the collection, use, transmission, and other disclosures of health information. Legislation has been proposed at various times at both the federal and the state level that would limit, forbid, or regulate the use or transmission of medical information outside of the United States. Such legislation, if adopted, may render our use of our off-shore partners, such as our data-entry and customer service providers, International Business Machines Corporation and Vision Business Process Solutions Inc., for work related to such data impracticable or substantially more expensive. Alternative processing of such information within the United States may involve substantial delay in implementation and increased cost.

Changes in the health care industry could affect the demand for our services, cause our existing contracts to terminate, and negatively impact the process of negotiating future contracts.

As the health care industry evolves, changes in our client and vendor bases may reduce the demand for our services, result in the termination of existing contracts, and make it more difficult to negotiate new contracts on terms that are acceptable to us. For example, the current trend toward consolidation of health care providers within hospital systems may cause our existing client contracts to terminate as independent practices are merged into hospital systems. Such larger health care organizations may also have their own practice management services and health IT systems, reducing demand for our services. Similarly, client and vendor consolidation results in fewer, larger entities with increased bargaining power and the ability to demand terms that are unfavorable to us. If these trends continue, we cannot assure you that we will be able to continue to maintain or expand our client base, negotiate contracts with acceptable terms, or maintain our current pricing structure, and our revenues may decrease.

Errors or illegal activity on the part of our clients may result in claims against us.

We require our clients to provide us with accurate and appropriate data and directives for our actions. We also rely upon our clients as users of our system to perform key activities in order to produce proper claims for reimbursement. Failure of our clients to provide these data and directives or to perform these activities may result in claims against us alleging that our reliance was misplaced or unreasonable or that we have facilitated or otherwise participated in submission of false claims.

If participants in our channel marketing and sales lead programs do not maintain appropriate relationships with current and potential clients, our sales accomplished with their help or data may be unwound and our payments to them may be deemed improper.

We maintain a series of relationships with third parties that we term “channel relationships.” These relationships take different forms under different contractual language. Some relationships help us identify sales leads. Other relationships permit third parties to act as value-added resellers or as independent sales representatives for our services. In some cases, for example in the case of some membership organizations, these relationships involve endorsement of our services as well as other marketing activities. In each of these cases, we require contractually that the third party disclose information to and/or limit their relationships with potential purchasers of our services for regulatory compliance reasons. If these third parties do not comply with these regulatory requirements or if our requirements are deemed insufficient, sales accomplished with the data or help that they have provided as well as the channel relationship themselves may not be enforceable, may be unwound, and may be deemed to violate relevant laws or regulations. Third parties that, despite our requirements, exercise undue influence over decisions by current and prospective clients, occupy positions with obligations of fidelity or fiduciary obligations to current and prospective clients, or who offer bribes or kickbacks to current and prospective clients or their employees may be committing wrongful or illegal acts that could render any resulting contract between us and the client unenforceable or in violation of relevant laws or regulations. Any misconduct

by these third parties with respect to current or prospective clients, any failure to follow contractual requirements, or any insufficiency of those contractual requirements may result in allegations that we have encouraged or participated in wrongful or illegal behavior and that payments to such third parties under our channel contracts are improper. This misconduct could subject us to civil or criminal claims and liabilities, require us to change or terminate some portions of our business, require us to refund portions of our services fees, and adversely affect our revenue and operating margin. Even an unsuccessful challenge of our activities could result in adverse publicity, require costly response from us, impair our ability to attract and maintain clients, and lead analysts or investors to reduce their expectations of our performance, resulting in reduction in the market price of our stock.

Our services present the potential for embezzlement, identity theft, or other similar illegal behavior by our employees or subcontractors with respect to third parties.

Among other things, our services involve handling mail from payers and from patients for many of our clients, and this mail frequently includes original checks and/or credit card information and occasionally includes currency. Even in those cases in which we do not handle original documents or mail, our services also involve the use and disclosure of personal and business information that could be used to impersonate third parties or otherwise gain access to their data or funds. If any of our employees or subcontractors takes, converts, or misuses such funds, documents, or data, we could be liable for damages, and our business reputation could be damaged or destroyed. In addition, we could be perceived to have facilitated or participated in illegal misappropriation of funds, documents, or data and therefore be subject to civil or criminal liability.

Potential subsidy of services similar to ours may reduce client demand.

Recently, entities such as the Massachusetts Healthcare Consortium have offered to subsidize adoption by physicians of EHR technology. In addition, federal regulations have been changed to permit such subsidy from additional sources subject to certain limitations, and the current administration has passed the HITECH Act, which will provide federal support for EHR initiatives. To the extent that we do not qualify or participate in such subsidy programs, demand for our services may be reduced, which may decrease our revenues.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

The price of our common stock may continue to be volatile.

The trading price of our common stock has been and is likely to remain highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control or unrelated to our operating performance. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this Annual Report on Form 10-K, these factors include:

- the operating performance of similar companies;
- the overall performance of the equity markets;
- announcements by us or our competitors of acquisitions, business plans, or commercial relationships;
- threatened or actual litigation;
- changes in laws or regulations relating to the sale of health insurance;
- any major change in our board of directors or management;
- publication of research reports or news stories about us, our competitors, or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- large volumes of sales of our shares of common stock by existing stockholders; and
- general political and economic conditions.

In addition, the stock market in general, and the market for Internet-related companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in very substantial costs; divert our management's attention and resources; and harm our business, operating results, and financial condition.

If a substantial number of shares become available for sale and are sold in a short period of time, the market price of our common stock could decline.

If our existing stockholders sell a large number of shares of our common stock or the public market perceives that these sales may occur, the market price of our common stock could decline. As of December 31, 2011, we had approximately 35.4 million shares of common stock outstanding. Moreover, the holders of shares of common stock have rights, subject to some conditions, to require us to file registration statements covering the shares they currently hold, or to include these shares in registration statements that we may file for ourselves or other stockholders.

We have also registered all common stock that we may issue under our 1997 Stock Plan, 2000 Stock Plan, 2007 Stock Option and Incentive Plan, and 2007 Employee Stock Purchase Plan. As of December 31, 2011, we had outstanding options to purchase approximately 2.9 million shares of common stock (approximately 1.5 million of which were exercisable at December 31, 2011) that, if exercised, will result in those shares becoming available for sale in the public market. As of December 31, 2011, we had outstanding restricted stock units totaling approximately 0.8 million that, if vested, will result in those shares becoming available for sale in the public market. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock.

Actual or potential sales of our stock by our employees, including members of our senior management team, pursuant to pre-arranged stock trading plans could cause our stock price to fall or prevent it from increasing for numerous reasons, and actual or potential sales by such persons could be viewed negatively by other investors.

In accordance with the guidelines specified under Rule 10b5-1 of the Securities and Exchange Act of 1934 and our policies regarding stock transactions, a number of our directors and employees, including members of our senior management team, have adopted and will continue to adopt pre-arranged stock trading plans to sell a portion of our common stock. Generally, stock sales under such plans by members of our senior management team and directors require public filings. Actual or potential sales of our stock by such persons could cause our stock price to fall or prevent it from increasing for numerous reasons. For example, actual or potential sales by such persons could be viewed negatively by other investors.

Provisions in our certificate of incorporation and by-laws or Delaware law might discourage, delay, or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Provisions of our certificate of incorporation and by-laws and Delaware law may discourage, delay, or prevent a merger, acquisition, or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares of our common stock. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- limitations on the removal of directors;
- advance notice requirements for stockholder proposals and nominations;

- the inability of stockholders to act by written consent or to call special meetings; and
- the ability of our board of directors to make, alter, or repeal our by-laws.

The affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote is necessary to amend or repeal the above provisions of our certificate of incorporation. As our board of directors has the ability to designate the terms of and issue new series of preferred stock without stockholder approval, the effective number of votes required to make such changes could increase. Also, absent approval of our board of directors, our by-laws may only be amended or repealed by the affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote.

In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder (generally an entity that, together with its affiliates, owns, or within the last three years has owned, 15% or more of our voting stock) for a period of three years after the date of the transaction in which the entity became an interested stockholder, unless the business combination is approved in a prescribed manner.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

We do not currently intend to pay dividends on our common stock, and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future, and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties.*

As of December 31, 2011, we own a complex of buildings, including approximately 133,000 square feet of office space, on approximately 53 acres of land in Belfast, Maine, as well as a conference and training facility on approximately 396 acres of land in Northport, Maine. We lease the remainder of our facilities. Our primary location is 311 Arsenal Street in Watertown, Massachusetts, where we lease 151,616 square feet, which is under lease until June 30, 2015. We also lease 2,562 square feet in Rome, Georgia, on a month-to-month basis; 16,136 square feet in Alpharetta, Georgia, through October 31, 2012; 19,730 square feet in Birmingham, Alabama, through February 28, 2014; and 22,295 square feet in Chennai, India, through our Indian subsidiary, athenahealth Technology Private Limited, until April 27, 2012. Through that Indian subsidiary, we have also entered into a new lease for a 37,506-square-foot facility in Chennai, India, through October 31, 2014. For additional information, please see Item 9B of Part III of this Annual Report. Our servers are housed at our headquarters and our Belfast, Maine, offices and also in data centers in Bedford, Massachusetts, and Orlando, Florida.

Item 3. ***Legal Proceedings.***

Prompt Medical Systems, L.P.

On March 2, 2010, a complaint was filed by Prompt Medical Systems, L.P. naming the Company and several other defendants in a patent infringement case (*Prompt Medical Systems, L.P. v. AllscriptsMisys Healthcare Solutions, Inc. et al.*, Civil Action No. 6:2010cv00071, United States District Court for the Eastern District of Texas). The complaint alleges that the Company has infringed U.S. Patent No. 5,483,443 with a listed issue date of January 9, 1996, entitled "Method for Computing Current Procedural Terminology Codes from Physician Generated Documentation." The complaint seeks an injunction enjoining infringement, damages, and pre- and post-judgment costs and interest. The Company and several other defendants filed motions to dismiss the complaint. On February 11, 2011, the Court issued an order granting-in-part and denying-in-part the motions to dismiss. The Court ordered the plaintiff to replead certain claims within fourteen days of the order.

On February 23, 2011, the plaintiff filed its amended complaint in response to the Court's February 11, 2011, order. The Company filed its answer to the amended complaint on March 9, 2011, denying all allegations of patent infringement, asserting a number of defenses and counterclaiming for a declaration of non-infringement, invalidity, and unenforceability. The Company also filed a joint motion with other defendants seeking sanctions for the plaintiff's spoliation of evidence, which is now fully briefed.

On November 24, 2010, several defendants filed (i) a motion for summary judgment of invalidity against the patent-in-suit on the basis that it claims only non-patentable subject matter and (ii) a motion to stay all proceedings pending the resolution of the motion for summary judgment. The Company filed a motion to join in the motion to stay the proceedings. On September 30, 2011, the Court denied defendant's motion to stay all proceedings pending the resolution of the motion for summary judgment.

A claim construction hearing was held on November 10, 2011. The Court also heard arguments on defendants' motion for summary judgment of invalidity after the claim construction hearing. The Court issued its claim construction order on December 15, 2011. The case is currently in the discovery phase, which was set to close on February 10, 2012. Trial was scheduled for June 11, 2012. On December 28, 2011, the Court granted a joint motion between plaintiff, the Company, and other defendants, to stay the case pending settlement, instructing the parties to file a stipulation of dismissal after execution of the settlement agreement. Settlement discussions are ongoing.

The Company is being indemnified in this lawsuit from and against any liability, pursuant to a license agreement with one of its vendors. That vendor is also providing the Company's defense. The Company believes that it has meritorious defenses to the lawsuit and continues to contest it vigorously.

PPS Data, LLC

On July 28, 2011, a complaint was filed by PPS Data, LLC naming the Company in a patent infringement case (*PPS Data, LLC v. athenahealth, Inc.*, Civil Action No. 3:11-cv-00746, United States District Court for the Middle District of Florida). The complaint alleges that the Company has infringed U.S. Patent No. 6,343,271 with a listed issue date of January 29, 2002, entitled "Electronic Creation, Submission, Adjudication, and Payment of Health Insurance Claims" (the "'271 Patent"). The complaint seeks an injunction enjoining infringement, damages, pre- and post-judgment costs and interest, and attorneys' fees. On September 8, 2011, the Company filed a motion to dismiss, or, in the alternative, a motion for summary judgment. On October 18, 2011, the plaintiff filed a motion for leave to amend its complaint to allege that the Company has infringed on U.S. Patent No. 6,341,265 with a listed issue date of January 22, 2002, entitled "Provider claim editing and settlement system," and U.S. Patent No. 7,194,416 with a listed issue date of March 20, 2007, entitled "Interactive creation and adjudication of health care insurance claims." The Court granted the plaintiff's motion for leave to amend its complaint on December 21, 2011, and on December 23, 2011, the plaintiff filed its amended complaint. On December 27, 2011, the Company filed a motion to dismiss, or, in the alternative, a motion for summary judgment of non-infringement with respect to the '271 Patent. On December 29, 2011, the United States Patent and Trademark Office granted the Company's request for reexamination of the '271 Patent. On January 9, 2012,

the Company filed a motion to stay the case pending completion of the patent reexamination. The Court has not yet ruled on this motion. The Company believes that it has meritorious defenses to the amended complaint and will continue to contest the claims vigorously.

Medsquire, LLC

On December 6, 2011, a complaint was filed by Medsquire, LLC against the Company in a patent infringement case (*Medsquire, LLC v. athenahealth, Inc.*, Civil Action No. 2:11-CV-10126-JHN-PLA, United States District Court for the Central District of California). The complaint alleges that the Company has infringed U.S. Patent No. 5,682,526 with a listed issue date of October 28, 1997, entitled "Method and System for Flexibly Organizing, Recording, and Displaying Medical Patient Care Information Using Fields in a Flowsheet." The complaint seeks damages, pre-judgment interest, and attorneys' fees. The Company believes that it has meritorious defenses to the complaint and will contest the claims vigorously.

AdvancedMD Software, Inc.

On July 18, 2011, the Company filed a complaint against AdvancedMD Software, Inc. in the United States District Court for the District of Massachusetts. The complaint alleges that AdvancedMD Software, Inc. has infringed two of the Company's U.S. Patents: No. 7,617,116, which was issued on November 10, 2009, for "Practice Management and Billing Automation System" and No. 7,720,701, which was issued on May 18, 2010, for "Automated Configuration of Medical Practice Management Systems." The Company is seeking permanent injunctive relief, damages, pre- and post-judgment costs and interest, and attorneys' fees.

Cordjia, LLC

On July 18, 2011, a complaint was filed in the Superior Court for Waldo County, Maine, against the Company entitled *Cordjia, LLC v. athenahealth, Inc*. The complaint alleges that the Company entered into a partnership with the plaintiff to purchase property in Maine, that the parties entered into a mutual non-disclosure agreement governing the sharing of confidential information between them, and that the Company subsequently terminated the partnership and purchased the property itself, using the confidential information obtained from the plaintiff to do so. The complaint purports to state claims for common-law fraud, negligent misrepresentation, breach of fiduciary duty, unjust enrichment, *quantum meruit*, promissory estoppel, breach of contract, and violation of the Maine Uniform Trade Secrets Act. The complaint seeks unspecified damages, fees and costs, and injunctive relief enjoining the Company from making further use of the plaintiff's confidential information and requiring the Company to return all confidential information in its possession to the plaintiff. On August 8, 2011, the Company filed a motion to dismiss for improper venue. On November 17, 2011, the Court granted the Company's motion to dismiss for improper venue as to the claims for unjust enrichment, *quantum meruit*, breach of contract, and violation of the Maine Uniform Trade Secret Act, and denied the Company's motion as to the other claims. On December 19, 2011, the Company filed motions to dismiss the remaining claims.

On December 7, 2011, a complaint was filed in the Superior Court for New Castle County, Delaware against the Company entitled *Cordjia, LLC v. athenahealth, Inc.* The complaint pertains to the same facts as stated above and alleges claims for breach of contract, unjust enrichment, *quantum meruit*, and violation of the Delaware Uniform Trade Secrets Act. The complaint seeks unspecified damages, fees and costs, an injunction enjoining the Company from making any further use of the confidential information, and an order requiring the Company to return any copies of confidential information. On February 2, 2012, the Company filed a motion to dismiss the complaint.

The Company believes that it has meritorious defenses to the complaints and intends to contest the claims vigorously.

Kickapoo Run, LLC

On September 16, 2011, a complaint was filed by Kickapoo Run, LLC naming the Company and several other defendants in a patent infringement case (*Kickapoo Run, LLC v. athenahealth, Inc. et al.*, Civil Action No. 1:99-mc-09999, United States District Court for the District of Delaware). The complaint alleges that the

Company has infringed U.S. Patent No. 5,961,332 with a listed issue date of October 5, 1999, entitled “Apparatus for Processing Psychological Data and Method of Use Thereof.” The complaint seeks an injunction enjoining infringement, damages, costs, expenses, pre- and post-judgment interest, and attorneys’ fees. The Company believes that it has meritorious defenses to the complaint and will contest the claims vigorously.

In addition, from time to time the Company may be subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. The Company does not, however, currently expect that the ultimate costs to resolve any pending matter will have a material effect on the Company’s consolidated financial position, results of operations, or cash flows.

Item 4. ***Mine Safety Disclosures.***

None.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

Market Information

Our common stock is listed on the NASDAQ Global Select Market under the trading symbol "ATHN." The following table sets forth, for each of the periods indicated, the high and low sales prices per share of our common stock as reported by the NASDAQ Global Select Market.

	High	Low
Fiscal Year Ended December 31, 2011		
First Quarter	$ 50.56	$ 40.40
Second Quarter	$ 47.96	$ 38.97
Third Quarter	$ 72.70	$ 41.08
Fourth Quarter	$66.99	$ 40.79
Fiscal Year Ended December 31, 2010		
First Quarter	$ 47.82	$ 35.02
Second Quarter	$ 38.77	$ 22.30
Third Quarter	$ 33.39	$21.51
Fourth Quarter	$ 46.25	$29.98

Holders

The last reported sale price of our common stock on the NASDAQ Global Select Market on February 14, 2012, was $64.09 per share. As of February 14, 2012, we had 126 holders of record of our common stock. Because many shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

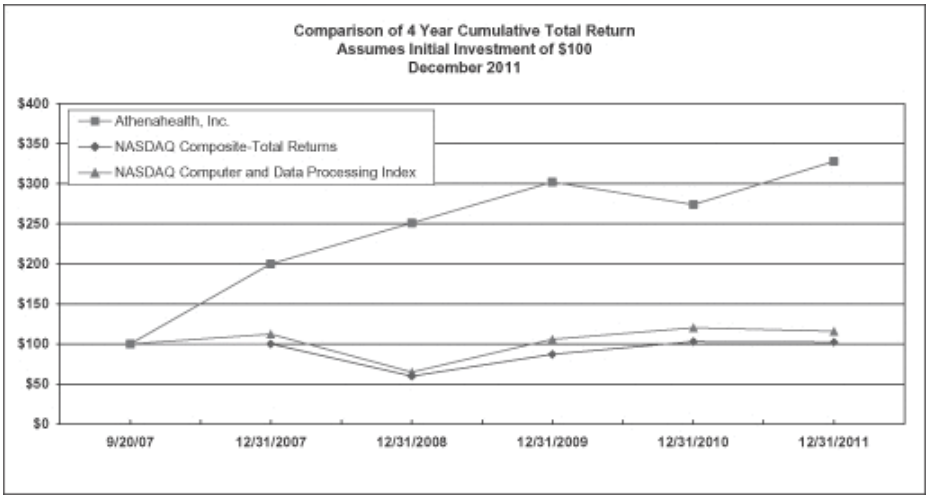
Dividends

We have never declared or paid any dividends on our capital stock. We currently intend to retain any future earnings and do not intend to declare or pay cash dividends on our common stock in the foreseeable future. Any future determination to pay dividends will be, subject to applicable law, at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, contractual restrictions, and capital requirements.

Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

Set forth below is a graph comparing the cumulative total stockholder return on our common stock with the NASDAQ Composite-Total Returns Index and the NASDAQ Computer and Data Processing Index for the period starting with our initial public offering on September 20, 2007, through the end of our fiscal year ended December 31, 2011. The graph assumes an investment of $100.00 made at the closing of trading on September 20, 2007, in each of (i) our common stock, (ii) the stocks comprising the NASDAQ Composite-Total Returns Index, and (iii) stocks comprising the NASDAQ Computer and Data Processing Index. All values assume reinvestment of the full amount of all dividends, if any, into additional shares of the same class of equity securities at the frequency with which dividends are paid on such securities during the applicable time period.



	September 20, 2007	December 31, 2007	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011
athenahealth, Inc.	$100	$200	$251	$302	$274	$328
NASDAQ Composite-Total Returns	100	100	60	87	$103	$102
NASDAQ Computer and Data Processing Index	100	112	65	106	$120	$116

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

During the quarter ended December 31, 2011, there were no purchases made by us, on our behalf, or by any "affiliated purchasers" of shares of our common stock.

Item 6. ***Selected Financial Data.***

The following tables summarize our consolidated financial data for the periods presented. You should read the following financial information together with the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes to these consolidated financial statements appearing elsewhere in this Form 10-K. Historical results are not necessarily indicative of the results to be expected in future periods.

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Revenue:					
Business services	$ 312,768	$ 237,145	$ 183,230	$ 131,879	$ 94,182
Implementation and other	11,299	8,393	5,297	4,403	3,436
Total revenue	324,067	245,538	188,527	136,282	97,618
Expenses (1):					
Direct operating costs	122,795	96,582	79,017	59,947	46,978
Selling and marketing	79,775	52,675	34,072	22,827	17,212
Research and development	23,343	18,448	14,348	10,600	7,476
General and administrative	48,711	43,119	36,111	29,330	19,922
Depreciation and amortization	16,710	11,117	7,767	5,993	5,541
Total expenses	291,334	221,941	171,315	128,697	97,129
Operating income	32,733	23,597	17,212	7,585	489
Other income (expense):					
Interest income	396	309	1,016	1,942	1,415
Interest expense	(314)	(753)	(968)	(428)	(3,682)
(Loss) gain on interest rate derivative contract	(73)	(199)	590	(881)	—
Other income (expense)	138	146	255	182	(5,689)
Total other (expense) income	147	(497)	893	815	(7,956)
Income (loss) before income tax (provision) benefit	32,880	23,100	18,105	8,400	(7,467)
Income tax (provision) benefit (2)	(13,834)	(10,396)	(8,829)	23,202	(34)
Net income (loss)	$ 19,046	$ 12,704	$ 9,276	$ 31,602	$ (7,501)
Net income (loss) per share — basic	$ 0.54	$ 0.37	$ 0.28	$ 0.97	$ (0.60)
Net income (loss) per share — diluted	$ 0.53	$ 0.36	$ 0.27	$ 0.91	$ (0.60)
Weighted average shares used in computing net income (loss) per share — basic	35,046	34,181	33,584	32,746	12,568
Weighted average shares used in net income (loss) per share — diluted	36,050	35,204	34,917	34,777	12,568

	As of December 31,				
	2011	2010	2009	2008	2007
			(In thousands)		
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$119,865	$116,175	$ 82,849	$ 86,994	$ 71,891
Current assets	183,136	163,650	126,379	123,816	88,689
Total assets (3)	348,786	261,170	211,077	169,571	103,636
Current liabilities	59,573	40,592	37,489	25,310	14,850
Total non-current liabilities	52,742	49,825	46,270	39,226	26,938
Total liabilities	112,315	90,417	83,759	64,536	41,788
Total indebtedness including current portion	—	9,216	12,388	10,416	1,398
Total stockholders' equity	236,471	170,753	127,318	105,035	61,848

	Years Ended December 31,				
	2011	2010	2009	2008	2007
			(In thousands)		
(1) Amounts include stock-based compensation expense as follows:					
Direct operating costs	$ 3,173	$ 2,298	$1,589	$ 872	$ 181
Selling and marketing	5,645	3,509	2,126	1,383	97
Research and development	2,311	2,014	1,015	1,086	260
General and administrative	7,772	6,656	3,584	2,217	773
Total	$18,901	$14,477	$ 8,314	$5,558	$1,311

(2) In the year ended December 31, 2008, we determined that a valuation allowance was no longer needed on our deferred tax assets. Accordingly, the 2008 results include the reversal of a $23.9 million valuation allowance.

(3) In 2010, we began purchasing certain available for sale investments that had a maturity date longer than one-year, which we classify in investments and other assets on the consolidated balance sheet. Included in total assets are cash, cash equivalents and short-term investments of $119.9 and $116.2 at December 31, 2011 and 2010, respectively and long-term investments of $18.6 million and $5.6 million at December 31, 2011 and 2010, respectively; therefore total cash, cash equivalents and available for sale investments equal $138.5 million and $121.8 million at December 31, 2011 and 2010, respectively.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

The following discussion and analysis should be read in conjunction with our consolidated financial statements, the accompanying notes to these financial statements, and the other financial information that appear elsewhere in this Annual Report on Form 10-K. This discussion contains predictions, estimates, and other forward-looking statements that involve a number of risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue"; the negative of these terms; or other comparable terminology. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by law, we are under no duty to update or revise any of the forward-looking statements, whether as a result of new information, future events, or otherwise, after the date of Annual Report on Form 10-K.

Overview

athenahealth provides business services that help medical caregivers achieve and sustain financial health by collecting more money and exercising more control over their administrative tasks. These services are designed to reduce the administrative burden of complex billing rules, quality measurement and reporting, clinical documentation and data exchange, patient communication and referrals, and many of the related tasks that distract medical providers and staff from the practice of medicine. Our services are delivered and consumed through a single instance of our cloud-based platform, athenaNet. We differentiate our services by regularly deploying updates and improvements through athenaNet to clients without any action on the part of the client. athenaNet enables us to quickly implement our solution at a low up-front cost and to seamlessly work in tandem with our clients in real time.

The services provided through our single-instance cloud are currently packaged as four integrated components: athenaCollector for revenue cycle management, athenaClinicals for electronic health record management, athenaCommunicator for patient communication management and athenaCoordinator for referral cycle management. The use of our single-instance platform allows all clients to benefit from the collective knowledge of all of our other clients through our patented billing Rules Engine and our clinical Quality Management Engine. Our clients use these rules engines to monitor and benchmark their performance with peer practices across the network. Our business intelligence application, Anodyne Analytics, also supports our clients in their pursuit of financial health by equipping users with data visualization tools and insight into their practice's performance.

Each service we provide is supported by a model comprised of three distinct components: Software, Knowledge, and Work. The cloud-based software is provided at no extra charge to users but is the primary conduit through which we exchange information between clients, payers, and our staff of experts. Knowledge is infused into each of our services via our Rules Engine as we work with clients, payers, and other partners to codify rules associated with reimbursement, clinical quality measures, and other factors related to our clients' performance. The third component to each of our services is the Work that we perform on behalf of our clients. Wherever possible, we replace manual processes with automation, but where automation is not possible, we provide that manual labor rather than returning it to clients to be completed. This unique service model of Software, Knowledge, and Work has allowed us to align our success with our clients' performance, creating a continual cycle of improvement and efficiency. We charge clients a percentage of collections in most cases, so our financial results are a direct reflection of our ability to drive revenue to medical practices.

In 2011, we generated revenue of $324.1 million from the sale of our services compared to $245.5 million in 2010 and $188.5 million in 2009. Given the scope of our market opportunity, we have increased our spending each year on growth, innovation, and infrastructure. Despite increased spending in these areas, higher revenue and lower direct operating expense as a percentage of revenue have led to greater operating income.

Our revenues are predominately derived from business services that we provide on an ongoing basis. This revenue is generally determined as a percentage of payments collected by us on behalf of our clients, so the key drivers of our revenue include growth in the number of physicians working within our client accounts and the collections of these physicians and the number of services purchased. To provide these services, we incur expense in several categories, including direct operating, selling and marketing, research and development, general and administrative, and depreciation and amortization expense. In general, our direct operating expense increases as our volume of work increases, whereas our selling and marketing expense increases in proportion to our rate of adding new accounts to our network of physician clients. Our other expense categories are less directly related to growth of revenues and relate more to our planning for the future, our overall business management activities, and our infrastructure. We manage our cash and our use of credit facilities to ensure adequate liquidity, in adherence to related financial covenants.

Sources of Revenue

We derive our revenue from two sources: from business services associated with our revenue cycle management, electronic health record management, patient communication management, care coordination and analytics offerings and from implementation and other services. Implementation and other services consist primarily of professional services fees related to assisting clients with the initial implementation of our services and for ongoing training and related support services. Business services accounted for approximately 97% of our total revenues for each of the years ended December 31, 2011, 2010, and 2009, respectively. Business services fees are typically 2% to 8% of a practice's total collections depending upon the services used and the size, complexity, and other characteristics of the practice, plus a per-statement charge for billing statements that are generated for patients of certain clients. Accordingly, business services fees are largely driven by: the number of physician practices we serve, the number of physicians and other medical providers working in those physician practices, the volume of activity and related collections of those physicians and other medical providers, the services used by the practice and our contracted rates. There is moderate seasonality in the activity level of physician practices. Typically, discretionary use of physician services declines in the late summer and during the holiday season, which leads to a decline in collections by our physician clients about 30 to 50 days later. Additionally, the volume of activity and related collections vary from year to year based in large part on the severity, length and timing of the onset of the flu season. While we believe that the severity, length and timing of the onset of the cold and flu season will continue to impact collections by our physician clients, there can be no assurance that our future sales of these services will necessarily follow historical patterns. Implementation and other revenue are largely driven by the increase in the volume of new business. As a result, we expect implementation and other revenue to increase in absolute terms for the foreseeable future but to remain relatively consistent as a percentage of total revenue. None of our clients accounted for more than 10% of our total revenues for the years ended December 31, 2011, 2010, or 2009.

Operating Expense

Direct Operating Expense. Direct operating expense consists primarily of salaries, benefits, claim processing costs, other direct costs, and stock-based compensation related to personnel who provide services to clients, including staff who implement new clients. We expense implementation costs as incurred. We include in direct operating expense all service costs associated with athenaCollector, athenaClinicals, athenaCommunicator, athenaCoordinator and Anodyne Analytics. We expect to increase our overall level of automation as we become a larger operation, with higher volumes of work in particular functions, geographies, and medical specialties. Although we expect that direct operating expense will increase in absolute terms for the foreseeable future, the direct operating expense is expected in the long-term to decline as a percentage of revenues as we increase automation. Additionally, in the near-term, we expect that the percentage of direct operating expenses as a percentage of revenue will slightly increase until we fully integrate our newly acquired business and automate our new care coordinator offering. Direct operating expense does not include allocated amounts for rent, occupancy and other indirect costs (including building maintenance and utilities), depreciation, and amortization, except for amortization related to purchased intangible assets.

Selling and Marketing Expense. Selling and marketing expense consists primarily of marketing programs (including trade shows, brand messaging, and on-line initiatives) and personnel-related expense for sales and marketing employees (including salaries, benefits, commissions, stock-based compensation, non-billable travel, lodging, and other out-of-pocket employee-related expense). Although we recognize substantially all of our revenue when services have been delivered, we recognize a large portion of our sales commission expense at the time of contract signature and at the time our services commence. Accordingly, we incur a portion of our sales and marketing expense prior to the recognition of the corresponding revenue. We have increased our sales and marketing expenses from year to year and we expect to continue to increase our investment in sales and marketing by hiring additional direct sales personnel and support personnel to add new clients and increase sales to our existing clients and expand awareness through paid search and other similar initiatives. We also plan to expand our marketing activities in certain areas, such as attending trade shows, expanding user groups, and creating new printed materials. As a result, we expect that, in the near-term, sales and marketing expense will increase at the same rate as revenue growth.

Research and Development Expense. Research and development expense consists primarily of personnel-related expenses for research and development employees (including salaries, benefits, stock-based compensation, non-billable travel, lodging, and other out-of-pocket employee-related expense) and consulting fees for third-party developers. We expect that, in the near-term, research and development expense will increase in absolute terms and will likely increase as a percentage of total revenue as we develop and enhance new and existing services.

General and Administrative Expense. General and administrative expense consists primarily of personnel-related expense for administrative employees (including salaries, benefits, stock-based compensation, non-billable travel, lodging, and other out-of-pocket employee-related expense), occupancy and other indirect costs (including building maintenance and utilities), and insurance premiums; software as a service fees; outside professional fees for accountants, lawyers, and consultants; and compensation for temporary employees. We expect that general and administrative expense will increase in absolute terms for the foreseeable future as we invest in infrastructure to support our growth. Though expenses are expected to continue to rise in absolute terms, we expect general and administrative expense to decline as a percentage of total revenue over time.

Depreciation and Amortization Expense. Depreciation and amortization expense consists primarily of depreciation of fixed assets and amortization of capitalized software development costs, which we amortize over a two-year period from the time of release of related software code. As we grow, we will continue to make capital investments in the infrastructure of the business, and we will continue to develop software that we capitalize. In the near-term we expect related depreciation and amortization expense to increase as a percentage of total revenue.

Other Income (Expense). Interest expense has historically consisted of interest costs related to our equipment-related term leases, our term loan and revolving loans under our credit facility, offset by interest income on investments. Interest income represents earnings from our cash, cash equivalents, and investments. The gain (loss) on the interest rate derivative contract represented the change in the fair market value of a derivative instrument that is not designated a hedge. As we repaid all capital leases, the term loan and terminated the interest rate derivative contract in May 2011, we expect that our interest expense will be insignificant until such time we determined it is appropriate to draw down on our new financing arrangements.

Income Tax Provision. Income tax provision consists of federal and state income taxes in the United States and India. The difference between our effective tax rate and statutory rate is mainly related to the treatment of incentive Stock Options (“ISOs”) as permanent differences. We substantially ceased issuing ISOs in 2009 and expect that the difference between the effective tax rate and our federal and state statutory rates will be nominal as the previously issued ISOs vest and possibly become disqualified dispositions.

Recent Developments

On October 20, 2011, the Company entered into a credit agreement that provides for a five-year $100 million revolving credit facility ("Revolving Credit Agreement"). The Revolving Credit Agreement replaces the $15 million credit agreement that expired September 3, 2011. The terms and conditions of the Revolving Credit Agreement are customary to facilities of this nature.

On August 31, 2011, the Company acquired Proxsys LLC ("Proxsys"). The acquisition broadens the Company's offerings by bringing order transmission, pre-certification and pre-registration capabilities to the Company's service platform. The results of Proxsys's operations are included in the statement of operations of the combined entity since the date of acquisition. Consideration for this transaction was $28 million plus potential additional consideration of $8 million which will be paid over a two-year period if Proxsys achieves certain business and financial milestones. As of December 31, 2011, we have not paid any amounts associated with the additional consideration.

Critical Accounting Policies

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). In connection with the preparation of our consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors we believe to be relevant at the time we prepared our consolidated financial statements. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but are not limited to: (1) revenue recognition; including our estimated expected customer life; (2) asset impairments; (3) depreciable lives of assets; (4) fair value of stock options; (5) allocation of direct and indirect cost of sales; (6) fair value of contingent consideration and acquired intangible assets and (7) litigation reserves. Future events and their effects cannot be predicted with certainty, and accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. Actual results could differ from the estimates we have used.

Our significant accounting policies are discussed in Note 1, Nature of Operations and Summary of Significant Accounting Policies, to our accompanying consolidated financial statements. We believe the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results, as they require management to make difficult, subjective or complex judgments, and to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting policies and related disclosures with the Audit Committee of our board of directors.

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Revenue recognition We derive our revenue from business services associated with revenue cycle management, electronic health record management, patient communication management, care coordination and analytics offerings and from implementation and other services. Our clients typically purchase one-year contracts that renew automatically upon completion. In most cases, our clients may terminate their agreements with 90 days notice without cause. We typically retain the right to terminate client agreements in a similar timeframe. Our clients are billed monthly, in arrears, based either upon a percentage of collections posted to athenaNet, minimum fees, flat fees, or per-claim fees where applicable. Invoices are generated within the first two weeks of the month and delivered to clients primarily by email. For most of our clients, fees are then deducted from a pre-defined bank account one week after invoice receipt via an auto-debit transaction. Amounts that have been invoiced are recorded as revenue or deferred revenue, as appropriate, and are included in our accounts receivable balances.	We recognize revenue when all of the following conditions are satisfied: • there is evidence of an arrangement; • the service has been provided to the client; • the collection of the fees is reasonably assured; and • the amount of fees to be paid by the client is fixed or determinable. All revenue, other than implementation revenue, is recognized when the service is performed. Relative to our business services offering that is based on the collections of amounts by our customers; we do not recognize revenue until our customers have been paid. Each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit if both of the following criteria are met: (1) the delivered item or items have value to the customer on a standalone basis and (2) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. The Company considers a deliverable to have standalone value if we sell this item separately or if the item is sold by another vendor or could be resold by the customer. Further, the Company's revenue arrangements generally do not include a general right of return relative to delivered products. Deliverables not meeting the	Although we believe that our approach to estimates and judgments as described herein is reasonable, actual results could differ and we may be exposed to increases or decreases in revenue that could be material.

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
	criteria for being a separate unit of accounting are combined with a deliverable that does meet that criterion. The appropriate allocation of arrangement consideration and recognition of revenue is then determined for the combined unit of accounting. The Company allocates arrangement consideration to each deliverable in an arrangement based on its relative selling price. The Company determines selling price using vendor-specific objective evidence ("VSOE"), if it exists; otherwise, the Company uses third party evidence ("TPE"). If neither VSOE nor TPE of selling price exists for a unit of accounting, the Company uses estimated selling price.	
We recognize our non-refundable up-front fees over the contract term or estimated expected customer life, whichever is longer.	As the implementation service is not separable from the ongoing business services, we record implementation fees as deferred revenue until the implementation service is complete, at which time we recognize revenue ratably on a monthly basis over the longer of the estimated expected customer life or contract life. The determination of the amount of revenue we can recognize each accounting period requires management to make estimates and judgments on the estimated expected customer life. We determined the estimated customer life considering the following key factors: • Renewal rate considerations • Economic life of the product or service • Industry data The estimated customer life, or expected performance period, for the years presented is 12 years.	Our estimate of expected performance period may prove to be inaccurate, in which case we may have understated or overstated the revenue recognized in an accounting period. For example, if in the future, we need to increase our estimated expected performance period to a period longer than 12 years, the amount we would recognize in each accounting period would decrease. On the other hand, if in the future, we need to decrease our estimated expected performance period to a period shorter than 12 years, the amount we would recognize in each accounting period would increase. The amount of deferred revenue related to non-refundable up-front fees is $50.6 million as of December 31, 2011.

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Business Combinations: Purchased Intangibles and Contingent consideration Business Combinations, including purchased intangibles and contingent consideration, are accounted for at fair value. Acquisition costs are generally expensed as incurred and recorded in general and administrative expenses. All changes to purchase accounting that do not qualify as measurement period adjustments are included in current period earnings.	The accounting for business combinations requires estimates and judgment as to expectations for future cash flows of the acquired business, the allocation of those cash flows to identifiable intangible assets, estimated useful lives of these intangible assets and a probability-weighted income approach based on scenarios in estimating achievement of operating results and earn-out targets related to estimating the value of the contingent considerations. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. We review acquired intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Each period we revalue the contingent consideration obligations associated with certain acquisitions to their then fair value and record increases in the fair value as contingent consideration expense and record decreases in the fair value as a reduction of contingent consideration expense.	Future business and economic conditions, as well as differences actually related to any of the assumptions, could materially impact the financial statements through impairment of goodwill and intangibles, acceleration of the amortization period of the purchased intangibles which are finite-lived assets or changes in fair value of the contingent consideration from the date of acquisition. Increases or decreases in the fair value of the contingent consideration obligations can result from changes in the estimates of earn out results. We have $47.3 million and $20.1 million carrying amount of goodwill and purchased intangibles, as of December 31, 2011, respectively. We have a liability of $8.2 million of contingent consideration related to $13.3 million in potential payments as of December 31, 2011, related to both the Anodyne and Proxsys business combinations. The initial purchase price allocation at its estimated fair value of $5.1 million related to the Anodyne acquisition in October 2009. To date, the Company has paid out a total of $3.6 million and adjusted the fair value by $0.2 million due to change in the assumptions, and other factors related to Anodyne. The balance as of December 31, 2011, was $1.4 million related to the remaining $4.2 million in potential payments related to Anodyne that will be settled in the first half of 2012. The initial purchase price allocation at estimated fair value of $6.8 million related to the Proxsys acquisition in August of 2011. To date, the Company has not paid out any amounts or adjusted the fair value related to Proxsys.

Consolidated Results of Operations

The following table sets forth our consolidated results of operations as a percentage of total revenue for the periods shown:

	Year Ended December 31,		
	2011	2010	2009
Revenue:			
Business services	96.5%	96.6%	97.2%
Implementation and other	3.5	3.4	2.8
Total revenue	100	100	100
Expenses:			
Direct operating costs	37.9	39.3	41.9
Selling and marketing	24.6	21.5	18.1
Research and development	7.2	7.5	7.6
General and administrative	15.0	17.6	19.2
Depreciation and amortization	5.2	4.5	4.1
Total expenses	89.9	90.4	90.9
Operating income	10.1	9.6	9.1
Other income (expenses):			
Interest income	0.1	0.1	0.5
Interest expense	(0.1)	(0.3)	(0.5)
(Loss) gain on interest rate derivative contract	(0.0)	(0.1)	0.3
Other income	0.1	0.1	0.2
Total other income (expense)	0.1	(0.2)	0.5
Income before income taxes	10.2	9.4	9.6
Income tax provision	(4.3)	(4.2)	(4.7)
Net income	5.9%	5.2%	4.9%

Comparison of the Years Ended December 31, 2011 and 2010

	Year Ended December 31,			
	2011	2010	Change	
	Amount	Amount	Amount	Percent
Business services	$312,768	$ 237,145	$ 75,623	32%
Implementation and other	11,299	8,393	2,906	35
Total revenue	$ 324,067	$245,538	$78,529	32%

Revenue. Total revenue for the year ended December 31, 2011, was $324.1 million, an increase of $78.5 million, or 32%, over revenue of $245.5 million for the year ended December 31, 2010. This increase was due almost entirely to an increase in business services revenue.

Business Services Revenue. Revenue from business services for the year ended December 31, 2011, was $312.8 million, an increase of $75.6 million, or 32%, over revenue of $237.1 million for the year ended December 31, 2010. This increase was primarily due to the growth in the number of physicians and other medical providers using our services. The summary of changes in the physicians and active medical providers using our revenue cycle management service, athenaCollector, electronic health records management service, athenaClinicals, and patient communication management service, athenaCommunicator are as follows:

	As of December 31,			
	2011	2010	Change	
	Amount	Amount	Amount	Percent
Physicians — revenue cycle management service	23,210	19,197	4,013	21%
Active medical providers — revenue cycle management service	32,740	27,114	5,626	21%
Physicians — clinicals cycle management service	4,662	2,383	2,279	96%
Active medical providers — clinicals cycle management service	6,525	3,348	3,177	95%
Physicians — patient cycle management service	4,098	736	3,362	457%
Active medical providers — patient cycle management service	5,830	1,213	4,617	381%

Also contributing to this increase was the growth in related collections on behalf of these physicians and medical providers. Total collections generated by these physicians and other medical providers that were posted for the year ended December 31, 2011, were $7.3 billion, an increase of $1.4 billion over posted collections of $5.9 billion for the year ended December 31, 2010.

Implementation and Other Revenue. Revenue from implementations and other sources was $11.3 million for the year ended December 31, 2011, an increase of $2.9 million, or 35%, over revenue of $8.4 million for the year ended December 31, 2010. This increase was driven by new client implementations and increased professional services, including consulting services, for our larger client base. The increase in implementation and other revenue is the result of the increase in the volume of new business.

	Year Ended December 31,			
	2011	2010	Change	
	Amount	Amount	Amount	Percent
Direct operating costs	$122,795	$96,582	$26,213	27%

Direct Operating Costs. Direct operating costs for the year ended December 31, 2011, was $122.8 million, an increase of $26.2 million, or 27%, over direct operating costs of $96.6 million for the year ended December 31, 2010 mainly as a result of increased direct operating employee-related costs and business partner services. These increases were primarily due to an increase in the number of claims that we processed on behalf

of our clients and the related expense of providing services, including transactions expense and salary and benefits expense. The total claims submitted on behalf of clients for the year ended December 31, 2011, was 59.3 million, an increase of 11.9 million, or 25% over total claims submitted of 47.4 million for the year ended December 31, 2010. Direct operating employee-related costs, including stock-based compensation expense, increased $14.4 million, or 27%, from $52.8 million for the year ended December 31, 2010, compared to $67.2 million for the year ended December 31, 2011. This increase is primarily due to the 21% increase in headcount since December 31, 2010, which does not include the approximately 200 employees from our acquisition of Proxsys at the end of August 2011. Not including our acquisition of Proxsys, we increased headcount to meet the current and anticipated demand for our services as our customer base has expanded and includes larger medical groups. Also, for the year ended December 31, 2011, direct operating expense includes $36.5 million of business partners' services, an increase of $8.3 million, or 29% compared to $28.2 million in the year ended December 31, 2010.

	Year Ended December 31,			
	2011	2010	Change	
	Amount	Amount	Amount	Percent
Selling and marketing	$ 79,775	$ 52,675	$27,100	51%
Research and development	23,343	18,448	4,895	27
General and administrative	48,711	43,119	5,592	13
Depreciation and amortization	16,710	11,117	5,593	50
Total	$168,539	$125,359	$43,180	34%

Selling and Marketing Expense. Selling and marketing expense for the year ended December 31, 2011, was $79.8 million, an increase of $27.1 million, or 51%, over costs of $52.7 million for the year ended December 31, 2010. This increase was primarily due to an increase in employee-related costs, including stock-based compensation expense, internal sales commissions and external partner channel commission of $15.2 million, or 44%, from $34.8 million for the year ended December 31, 2010 to $50.0 million for the year ended December 31, 2011. Our sales and marketing headcount increased 39% since December 31, 2010, as we hired additional sales personnel to focus on adding new customers and increasing penetration within our existing markets. The increase was also due to a $8.6 million increase in sales and marketing programs to drive leads, meetings and awareness and $3.2 million increase in travel-related expenses, consulting, and other marketing expenses.

Research and Development Expense. Research and development expense for the year ended December 31, 2011, was $23.3 million, an increase of $4.9 million, or 27%, over research and development expense of $18.4 million for the year ended December 31, 2010. This increase was primarily due to an increase in employee-related costs, including stock-based compensation expense, of $4.1 million, or 25%, from $16.4 million for the year ended December 31, 2010 to $20.5 million for the year ended December 31, 2011. This increase is due in part to a 31% increase in headcount from December 31, 2010 in order to upgrade and extend our service offerings and develop new technology, as well as an overall increase in salaries for technical resources.

General and Administrative Expense. General and administrative expense for the year ended December 31, 2011, was $48.7 million, an increase of $5.6 million, or 13%, over general and administrative expenses of $43.1 million for the year ended December 31, 2010. This increase was partially due to a $3.4 million increase in employee-related costs, including stock-based compensation expenses, due to an increase in headcount and increase in value of stock grants. Our general and administrative headcount increased by 23% since December 31, 2010 as we added personnel to support our growth, as well as from our acquisition of Proxsys. General and administrative expense for the year ended December 31, 2011, included an increase of $1.2 million in legal, audit, tax, consulting and insurance expenses which mainly relate to our recent acquisitions and $1.1 million in travel and expenses, recruiting, corporate events and infrastructure.

Depreciation and Amortization. Depreciation and amortization expense for the year ended December 31, 2011, was $16.7 million, an increase of $5.6 million, or 50%, from depreciation and amortization of $11.1 million for the year ended December 31, 2010. This increase was primarily due to higher depreciation related to our fixed asset additions in 2011 and 2010 and higher amortization related to increase in our capitalized development costs.

	Year Ended December 31,			
	2011	2010	Change	
	Amount	Amount	Amount	Percent
Interest income	$ 396	$ 309	$ 87	28%
Interest expense	(314)	(753)	439	(58)
(Loss) gain on interest rate derivative contract	(73)	(199)	(126)	(63)
Other income	138	146	(8)	(5)
Total other income (expense)	$ 147	$ (497)	$ 644	130%

Other Income (Expense). Interest income for the year ended December 31, 2011, was $0.4 million, a change of $0.1 million from interest income of $0.3 million for the year ended December 31, 2010. Interest expense for the year ended December 31, 2011, was $0.3 million, a decrease of approximately $0.4 million compared to interest expense of $0.8 million for the year ended December 31, 2010. The decrease is related to a decrease in the balance outstanding on our loans and capital leases during 2011, which we repaid in May 2011. The loss on interest rate derivative for the year ended December 31, 2011 was $0.1 million, compared to a loss on interest rate derivative for the year ended December 31, 2010, of $0.2 million. The losses were the result of the change in the fair market value of a derivative instrument that was not designated as a hedge instrument, which was terminated in May 2011.

Income Tax Provision. We recorded a provision of $13.8 million, or 42% effective tax rate, for income taxes for the year ended December 31, 2011, compared to a provision of $10.4 million, or 45% effective tax rate, for the income taxes for the year ended December 31, 2010. The decrease in our effective tax rate was due to a decrease in our total permanent differences. The decrease in our total permanent differences was mainly due to an increase in the amount of deductions for disqualifying dispositions related to ISOs.

Comparison of the Years Ended December 31, 2010 and 2009

	Year Ended December 31,			
	2010	2009	Change	
	Amount	Amount	Amount	Percent
Business services	$ 237,145	$ 183,230	$ 53,915	29%
Implementation and other	8,393	5,297	3,096	58
Total revenue	$ 245,538	$ 188,527	$ 57,011	30%

Revenue. Total revenue for the year ended December 31, 2010, was $245.5 million, an increase of $57.0 million, or 30%, over revenue of $188.5 million for the year ended December 31, 2009. This increase was due almost entirely to an increase in business services revenue.

Business Services Revenue. Revenue from business services for the year ended December 31, 2010, was $237.1 million, an increase of $53.9 million, or 29%, over revenue of $183.2 million for the year ended December 31, 2009. This increase was primarily due to the growth in the number of physicians and other medical providers using our services. The number of physicians using our revenue cycle management service, athenaCollector, at December 31, 2010, was 19,197, an increase of 3,478, or 22%, from 15,719 physicians at December 31, 2009. The number of active medical providers using our revenue cycle management service, athenaCollector, at December 31, 2010, was 27,114, an increase of 3,748, or 16%, from 23,366 active medical

providers at December 31, 2009. The number of physicians using our clinical cycle management service, athenaClinicals, at December 31, 2010, was 2,383, an increase of 1,463, or 159%, from 920 physicians at December 31, 2009. The number of active medical providers using our clinical cycle management service, athenaClinicals, at December 31, 2010, was 3,348, an increase of 1,877, or 128%, from 1,471 active medical providers at December 31, 2009. Since being introduced in March 2010, the number of physicians using our patient cycle management service, athenaCommunicator, at December 31, 2010, was 736. Also contributing to this increase was the growth in related collections on behalf of these physicians and medical providers. Total collections generated by these physicians and other medical providers that were posted for the year ended December 31, 2010, was $5.9 billion, an increase of $1.0 billion over posted collections of $4.9 billion for the year ended December 31, 2009.

Implementation and Other Revenue. Revenue from implementations and other sources was $8.4 million for the year ended December 31, 2010, an increase of $3.1 million, or 58%, over revenue of $5.3 million for the year ended December 31, 2009. This increase was driven by new client implementations and increased professional services for our larger client base. The increase in implementation and other revenue was the result of the increase in the volume of our business.

	Year Ended December 31,			
	2010	2009	Change	
	Amount	Amount	Amount	Percent
Direct operating costs	$96,582	$79,017	$17,565	22%

Direct Operating Costs. Direct operating costs for the year ended December 31, 2010, was $96.6 million, an increase of $17.6 million, or 22%, over direct operating costs of $79.0 million for the year ended December 31, 2009. This increase was primarily due to an increase in the number of claims that we processed on behalf of our clients and the related expense of providing services, including transactions expense and salary and benefits expense. The amount of collections processed for the year ended December 31, 2010, was $5.9 billion, which was $1.0 billion higher than the $4.9 billion of collection processed for the year ended December 31, 2009. The increase in collections increased at a higher rate than the increase in the related direct operating expense as we benefited from economies of scale. Direct operating employee-related costs increased $4.8 million from the year ended December 31, 2009, to the year ended December 31, 2010. This increase is primarily due to the 19% increase in headcount since December 31, 2009. We increased the professional services headcount as part of our redesign of our client services organization and to meet the current and anticipated demand for our services as our customer base has expanded and includes larger medical groups. For the year ended December 31, 2010, direct operating expense includes $1.8 million of amortization of purchased intangibles expense related to the purchase of certain assets through acquisitions completed in 2009 and 2008, compared to $0.6 million in the year ended December 31, 2009. Stock-based compensation expense also increased $0.7 million from the year ended December 31, 2009 to the year ended December 31, 2010.

	Year Ended December 31,			
	2010	2009	Change	
	Amount	Amount	Amount	Percent
Selling and marketing	$ 52,675	$ 34,072	$18,603	55%
Research and development	18,448	14,348	4,100	29
General and administrative	43,119	36,111	7,008	19
Depreciation and amortization	11,117	7,767	3,350	43
Total	$125,359	$92,298	$33,061	36%

Selling and Marketing Expense. Selling and marketing expense for the year ended December 31, 2010, was $52.7 million, an increase of $18.6 million, or 55%, over costs of $34.1 million for the year ended December 31, 2009. This increase was primarily due to an increase in stock-based compensation expense of $1.4 million and an increase in employee-related costs, internal sales commissions and external partner channel

commission of $11.2 million due to an increase in headcount and external channel partners. Our sales and marketing headcount increased by 62% since December 31, 2009, as we hired additional sales personnel to focus on adding new customers and increasing penetration within our existing markets. The increase was also due to a $6.0 million increase in travel related expenses, consulting and other software licenses, online marketing, offline marketing and other marketing events.

Research and Development Expense. Research and development expense for the year ended December 31, 2010, was $18.4 million, an increase of $4.1 million, or 29%, over research and development expense of $14.3 million for the year ended December 31, 2009. This increase was primarily due to a $3.1 million increase in employee-related costs due to an increase in headcount and an increase in stock-based compensation expense of $1.0 million. Our research and development headcount increased 19% since December 31, 2009, as we hired additional research and development personnel in order to upgrade and extend our service offerings and develop new technologies.

General and Administrative Expense. General and administrative expense for the year ended December 31, 2010, was $43.1 million, an increase of $7.0 million, or 19%, over general and administrative expenses of $36.1 million for the year ended December 31, 2009. This increase was partially due to an increase in stock-based compensation expense of $3.1 million, a $1.1 million increase in facilities related expenses, and a $0.7 million increase in bad debt expense. Our general and administrative headcount increased by 6% since December 31, 2009, as we added personnel to support our growth. Legal, audit, insurance and consulting expenses increased $2.4 million primarily due to our restatement and other additional costs of being a public company. Additionally, under new authoritative guidance on business combinations adopted January 1, 2009, any changes in the fair value of contingent consideration after the acquisition date affect earnings. The potential contingent consideration of $7.7 million was recorded in the initial purchase price allocation at its estimated fair value of $5.1 million. A portion of the contingent consideration relating to the Anodyne acquisition is expected to be paid in 2011 and 2012 totaling $1.0 million is presented in other long-term liabilities. The contingent consideration will be adjusted to fair value to the amount payable when, and if, earned. The difference between the estimated and earn-out amount will be charged or credited to expense. For the year ended December 31, 2010, approximately $0.3 million was credited to expense relating to this contingent consideration and $0.2 million was paid during the year.

Depreciation and Amortization. Depreciation and amortization expense for the year ended December 31, 2010, was $11.1 million, an increase of $3.4 million, or 43%, from depreciation and amortization of $7.8 million for the year ended December 31, 2009. This increase was primarily due to higher depreciation from fixed asset expenditures in 2010 and 2009.

	Year Ended December 31,			
	2010	2009	Change	
	Amount	Amount	Amount	Percent
Interest income	$ 309	$1,016	$ (707)	(70%)
Interest expense	(753)	(968)	215	(22)
(Loss) gain on interest rate derivative contract	(199)	590	(789)	*
Other income	146	255	(109)	(43)
Total other (expense) income	$ (497)	$ 893	$(1,390)	*

* not meaningful

Other Income (Expense). Interest income for the year ended December 31, 2010, was $0.3 million, a decrease of $0.7 million from interest income of $1.0 million for the year ended December 31, 2009. The decrease was directly related to the lower interest rates during the year. Interest expense for the year ended December 31, 2010, was $0.8 million, a decrease of approximately $0.2 million compared to interest expense of

$1.0 million for the year ended December 31, 2009. The decrease is related to a decrease in the balance outstanding on our capital leases during 2010. The loss on interest rate derivative for the year ended December 31, 2009, was $0.2 million, compared to a gain on interest rate derivative for the year ended December 31, 2009, of $0.6 million. The loss was the result of the change in the fair market value of a derivative instrument that was not designated as a hedge instrument under the authoritative guidance. Although this derivative does not qualify for hedge accounting, we believe that the instrument is closely correlated with the underlying exposure, thus managing the associated risk. The gains or losses from changes in the fair value of derivative instruments that are not accounted for as hedges are recognized in earnings.

Income Tax Provision. We recorded a provision of $10.4 million for income taxes for the year ended December 31, 2010 based upon an effective tax rate of 45% compared to a provision of $8.8 million for the income taxes for the year ended December 31, 2009 based upon an effective tax rate of 49%. The decrease in our effective tax rate was due to a decrease in our state tax rate and a decrease in the effect of our permanent differences as percent of the overall rate.

Liquidity and Capital Resources

Sources of Liquidity

We initially funded our growth primarily through the private sale of equity securities, totaling approximately $50.6 million, as well as through long-term debt, working capital, equipment-financing loans, and, in September 2007, we completed our initial public offering which provided net proceeds of approximately $81.3 million. Since the initial public offering, we have funded our growth primarily through cash generated from operations.

As of December 31, 2011, our principal sources of liquidity consisted of cash, cash equivalents and total available-for-sale investments of $138.5 million. Our cash investments consist of corporate debt securities, U.S. Treasury and government agency securities, and commercial paper. As specified in our investment policy, we place our investments in instruments that meet high credit quality standards, it limits the amount of our credit exposure to any one issue or issuer and seeks to manage these assets to achieve our goals of preserving principal, maintaining adequate liquidity at all times, and maximizing returns. As of December 31, 2011, we have no outstanding indebtedness. In October 2011, we entered into a $100 million five-year, revolving credit agreement. The credit facility may be extended by up to an additional $100 million on the satisfaction of certain covenants, including consolidated leverage ratio and minimum fixed charges coverage ratios. The interest rates applicable to revolving loans under the Revolving Credit Agreement are at either (i) the British Bankers Association London Interbank Offered Rate (“LIBOR”) plus an interest margin based on the Company’s consolidated leverage ratio, or (ii) the base rate (which is the highest of (a) the Bank of America prime rate, (b) the Federal Funds rate plus 0.50%, and (c) one month LIBOR plus 1.00%) plus an interest margin based on the Company’s consolidated leverage ratio. The Company paid a $0.7 million commitment fee.

We believe our sources of liquidity will be sufficient to sustain operations, to finance our strategic initiatives, make payments on our contractual obligations, and our purchases of property and equipment for the foreseeable future. Our analysis is supported by the growth in our new customer base and a high rate of renewal rates with our existing customers and the corresponding increase in billings and collections. We may pursue acquisitions or investments in complementary businesses or technologies, in which case we may need to borrow against our revolving credit facility. There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to maintain our ability to borrow under our existing credit facility or obtain additional financing.

Commitments

We enter into various purchase commitments with vendors in the normal course of business. We believe that our existing sources of liquidity will be adequate to fund these purchases during the year 2012. In the normal course of business, we make representations and warranties that guarantee the performance of services under service arrangements with clients. Historically, there has been no material losses related to such guarantees.

Operating Cash Flow Activities

	For the Year Ended December 31,		
	2011	2010	2009
Net Income	$ 19,046	$ 12,704	$ 9,276
Non-cash adjustments to net income	23,575	22,074	20,702
Cash provided in changes in operating assets and liabilities	18,143	9,942	2,351
Net cash provided by operating activities	$ 60,764	$ 44,720	$ 32,329

Cash flow from operations increased by $16.0 million to $60.8 million for the year ended December 31, 2011, as compared to $44.7 million for the year ended December 31, 2010. The increase is mainly attributable to increases in net income and cash provided in changes in operating assets and liabilities. The increase in net income is primarily due to the growth in customer bases, stability in renewal rates with our existing customer base and increased adoption of our services. This increase is partially offset by an increase in operating expenses that require cash outlays such as salaries, higher commissions, direct operating expenses, and selling and marketing expenses. The increase in add-backs of non-cash expenses during the year ended December 31, 2011, from December 31, 2010 are primarily due to increases in amortization and depreciation, and stock-based compensation expense. This is offset by a non-cash adjustment related to the excess tax benefits from stock-based awards; thereby presenting total operating activities as if we had paid higher cash taxes. The increase in depreciation and amortization was primarily attributed to capital expenditures and the acquisition of the Point Lookout facility in June 2011. The increase in stock-based compensation expense is primarily due to the increase in the volume and the value of stock-based awards granted during 2011 over grants in 2010. The increase to cash provided by in changes in operating assets and liabilities for the year ended December 31, 2011, was due in large part to the increase in our deferred revenue offset by an increase in accounts receivable and decrease in deferred rent. Accounts receivable increase to $49.0 million at December 31, 2011, compared to $36.9 million at December 31, 2010. The increase can be attributed to the overall increase in revenue and the timing of current billings and subsequent payment of those billings as of December 31, 2011, compared to the same period and timing as of December 31, 2010. The increase in accrued expenses of $10.9 million is due to higher accrued sales commissions due to the timing of new deals and accrued bonus mainly driven by an increase in headcount of 45%. The decrease in deferred rent is related to the repayment of rental incentive loans in the amount of $2.1 million. The $11.8 million impact from changes in prepaid and other current assets on the consolidated statements of cash flows compared to the $2.2 million increase in prepaid and other current assets on the consolidated balance sheets is mainly a result of being in an income tax receivable position with a $13.8 million net tax benefit non-cash transaction associated with our stock-based compensation exercises.

Investing Cash Flow Activities

The cash used by investing activities stayed relatively consistent for the year ended December 31, 2011, at $53.2 million compared to $53.6 million for the year ended December 31, 2010. Cash flows used in investing activities consist primarily of purchases of property and equipment, payment for the acquisitions of Proxsys LLC and Point Lookout, the latter which is a conference center and training facility, capitalized software development costs and our investment activities. We make investments in property and equipment and in software development on an ongoing basis. Our investment in equipment consists primarily of purchases of technology infrastructure to provide service stability and additional capacity to support our expanding client base. We paid cash consideration of $27.9 million (net of cash acquired) in relation to our acquisition with Proxsys LLC and $7.0 million related to Point Lookout. In addition, we spent $16.7 million of property and equipment, including approximately $1 million related to a purchase option under our capital lease obligations which were terminated during the year ended December 31, 2011. Our investment in software development consist of company managed-design, development, and testing of new application functionality with our less mature service offerings, which primarily include our athenaClinicals, athenaCommunicator and athenaCoordinator service offerings. Our capitalized software development amounted to $7.8 million for the year ended December 31, 2011. Restricted cash decreased by $3.7 million due to payments made

for contingent consideration relating to acquisitions completed in 2008 and 2009. We plan to spend approximately $35 million to $40 million in infrastructure, technology and capitalized software development during the year ended December 31, 2012, in addition to the $8.1 million to settle purchases that occurred at the end of December 31, 2011, which currently are accrued in accounts payable and accrued expenses at December 31, 2011.

Financing Cash Flow Activities

The cash provided by financing activities was $14.4 million for the year ended December 31, 2011, compared to cash provided by financing activities $14.1 million for the year ended December 31, 2010. Cash flows provided by financing activities consists primarily of proceeds from $14.1 million from the exercise of stock options and $14.2 million from excess tax benefits offset by the payments on debt and contingent consideration. We elected to repay all of our outstanding debt balances under our equipment line of credit and term loan, as well as terminate our related interest rate derivative which resulted in a decrease in cash of $9.7 million. The payment of $3.4 million in contingent consideration that was accrued at acquisition date relating to the Anodyne acquisition related to certain earn-out targets being met.

Contractual Obligations

We have contractual obligations under our operating leases for property and certain office equipment. The following table summarizes our long-term contractual obligations and commitments as of December 31, 2011:

	Payments Due by Period					
	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	After 5 years	Other
Operating lease obligations	33,116	6,713	13,882	6,592	5,929	
Other	1,685					1,685
Total	34,801	$ 6,713	$13,882	$6,592	$5,929	$1,685

The commitments under our operating leases shown above consist primarily of lease payments for our Watertown, Massachusetts, headquarters; our Rome, Georgia, offices; our Alpharetta, Georgia offices; Birmingham, Alabama, offices; and our Chennai, India offices.

Other amount consists of uncertain tax benefits. We have not utilized these uncertain tax benefits, nor do we have an expectation of when these uncertain tax benefits would be challenged. As of December 31, 2011, we cannot reasonably estimate when any future cash outlays would occur related to these uncertain tax positions.

Off-Balance Sheet Arrangements

As of December 31, 2011, 2010, and 2009, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as “structured finance” or “special purpose” entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Other than our operating leases for office space and computer equipment, we do not engage in off-balance sheet financing arrangements.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by FASB and are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued accounting pronouncements will not have a material impact on consolidated financial position, results of operations, and cash flows, or do not apply to our operations.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Foreign Currency Exchange Risk. Our results of operations and cash flows are subject to fluctuations due to changes in the Indian rupee. None of our consolidated revenues are generated outside the United States. None

of our vendor relationships, including our contracts with our offshore service providers International Business Machines Corporation and Vision Business Process Solutions, Inc., a subsidiary of Dell, Inc. (formerly Perot Systems Corporation), for work performed in India and the Philippines, is denominated in any currency other than the U.S. dollar. For the year ended December 31, 2011, less than 1% of our expenses occurred in our direct subsidiary in Chennai, India, and was incurred in Indian rupees. We therefore believe that the risk of a significant impact on our operating income from foreign currency fluctuations is not substantial.

Interest Rate Sensitivity. We had unrestricted cash, cash equivalents and total available-for-sale investments totaling $138.5 million at December 31, 2011. These amounts are held for working capital purposes and were invested primarily in deposits, money market funds, and available for sale, interest-bearing, investment-grade securities. Due to the short and expected term of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. The value of these securities, however, will be subject to interest rate risk and could fall in value if interest rates rise.

Interest Rate Risk. As of December 31, 2011, we had no outstanding long-term debt and capital lease obligations and there were no amounts outstanding under the revolving credit facility.

Item 8. *Financial Statements and Supplementary Data.*

The financial statements required by this Item are located beginning on page F-1 of this report.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

Item 9A. *Controls and Procedures.*

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities and Exchange Act of 1934 is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. As of December 31, 2011 (the "Evaluation Date"), our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our Chief Executive Officer and Chief Financial Officer have concluded based upon the evaluation described above that, as of the Evaluation Date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15(d)-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, our Chief Executive and Chief Financial Officers and effected by our board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive and Chief Financial Officers, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011. In conducting this evaluation, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in Internal Control-Integrated Framework.

Based upon this evaluation and those criteria, management believes that, as of December 31, 2011, our internal controls over financial reporting were effective.

Deloitte and Touche LLP, our independent registered public accounting firm, has audited our consolidated financial statements and the effectiveness of our internal control over financial reporting as of December 31, 2011.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of athenahealth, Inc.
Watertown, Massachusetts

We have audited the internal control over financial reporting of athenahealth, Inc. and subsidiaries (the "Company") as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011, of the Company and our report dated February 16, 2012, expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
February 16, 2012

Item 9B. ***Other Information.***

Entry into Rule 10b5-1 Trading Plans

Our policy governing transactions in our securities by our directors, officers, and employees permits our officers, directors, and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. We have been advised that a number of our directors and employees, including members of our senior management team, have entered into trading plans in accordance with Rule 10b5-1 and our policy governing transactions in our securities. We undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

Entry into new lease in Chennai, India

On October 24, 2011, athenahealth Technology Private Limited ("athenahealth India"), a direct subsidiary of the registrant, entered into a Lease Deed with M/S Faery Estates Private Limited (the "New Lease") for approximately 37,506 square feet of office space in Chennai, India. Upon occupancy, the leased space shall serve as the principal office of athenahealth India. The New Lease has a three-year term, commencing November 1, 2011, with renewal options for two additional three-year periods. The initial three-year term is treated as a lock-in period during which athenahealth India shall not abandon or surrender the property or terminate the New Lease. The initial rent, the payment of which does not commence until January 1, 2012, is 15,302,448 Indian Rupees (or approximately U.S. $0.3 million) per year and is subject to a 15% increase at renewal. athenahealth India may not sublease the premises, but it may assign to affiliates with the prior written consent M/S Faery Estates Private Limited, with such assignment subject to certain restrictions. The New Lease contains customary representations, warranties, covenants, and termination provisions. There are no material relationships between the Company or any of its affiliates and the lessor, other than in respect of the New Lease.

The foregoing description does not purport to be complete and is qualified in its entirety by reference to the full text of the New Lease, a copy of which is filed as an exhibit to this Annual Report, and the terms of which are incorporated herein by reference.

PART III

Certain information required by Part III of Form 10-K is omitted from this report because we expect to file a definitive proxy statement for our 2012 Annual Meeting of Stockholders ("2012 Proxy Statement") within 120 days after the end of our fiscal year pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, and the information included in our 2012 Proxy Statement is incorporated herein by reference to the extent provided below.

Item 10. *Directors, Executive Officers and Corporate Governance.*

The information required by this Item is incorporated by reference to the information to be contained in our 2012 Proxy Statement.

We have adopted a code of ethics that applies to all of our directors, officers, and employees. This code is publicly available on our website at *www.athenahealth.com.* Amendments to the code of ethics or any grant of a waiver from a provision of the code requiring disclosure under applicable SEC and NASDAQ Global Select Market rules will be disclosed on our website or, if so required, disclosed in a Current Report on Form 8-K.

Item 11. *Executive Compensation.*

The information required by this Item is incorporated by reference to the information to be contained in our 2012 Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

The information required by this Item is incorporated by reference to the information to be contained in our 2012 Proxy Statement.

Item 13. *Certain Relationships and Related Transactions, and Director Independence.*

The information required by this Item is incorporated by reference to the information to be contained in our 2012 Proxy Statement.

Item 14. *Principal Accounting Fees and Services.*

The information required by this Item is incorporated by reference to the information to be contained in our 2012 Proxy Statement.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

a) Documents filed as part of this Report.

(1) *The following consolidated financial statements are filed herewith in Item 8 of Part II above.*

(i) Report of Independent Registered Public Accounting Firm

(ii) Consolidated Balance Sheets

(iii) Consolidated Statements of Operations

(iv) Consolidated Statements of Stockholders' Equity

(v) Consolidated Statements of Cash Flows

(vi) Notes to Consolidated Financial Statements

(2) *Financial Statement Schedules*

All other supplemental schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

(3) *Exhibits*

Exhibit No.	Exhibit Index
2.1(vi)	Agreement and Plan of Merger by and among athenahealth, Inc., Aries Acquisition Corporation, Anodyne Health Partners, Inc., and the Securityholders' Representatives named therein, dated October 5, 2009
2.2(xiii)	Agreement and Plan of Merger by and among athenahealth, Inc., Prometheus Acquisition LLC, Proxsys LLC, and the Securityholders' Representative named therein, dated July 21, 2011
3.1(i)	Amended and Restated Certificate of Incorporation of the Registrant
3.2(i)	Amended and Restated Bylaws of the Registrant
4.1(i)	Specimen Certificate evidencing shares of common stock
10.1(i)	Form of Indemnification Agreement, to be entered into between the Registrant and each of its directors and officers
†10.2(i)	1997 Stock Plan of the Registrant and form of agreements thereunder
†10.3(i)	2000 Stock Option and Incentive Plan of the Registrant, as amended, and form of agreements thereunder
†10.4(xv)	Amended and Restated 2007 Stock Option and Incentive Plan of the Registrant, and form of agreements thereunder
†10.5(viii)	2007 Employee Stock Purchase Plan, as amended
†10.6(viii)	Employment Agreement by and between the Registrant and Timothy M. Adams, dated January 11, 2010
†10.7(i)	Employment Agreement by and between the Registrant and Jonathan Bush, dated November 1, 1999, as amended
†10.8(iii)	Employment Agreement by and between the Registrant and Robert L. Cosinuke, dated December 3, 2007

Exhibit No.	Exhibit Index
†10.9(x)	Employment Agreement by and between the Registrant and Derek Hedges, dated January 31, 2005
†10.10(xii)	Employment Agreement by and between the Registrant and Stephen Kahane, dated February 18, 2011
†10.11(ix)	Employment Agreement by and between the Registrant and Daniel H. Orenstein, dated July 1, 2010
†10.12(ix)	Employment Agreement by and between the Registrant and Ed Park, dated July 1, 2010
†10.13(xi)	The athenahealth Executive Incentive Plan, adopted February 15, 2011
†10.14(xv)	Director Compensation Plan of the Registrant, dated July 1, 2011
10.15(i)	Warrant to Purchase 32,468 Shares of the Registrant's Series D Convertible Preferred Stock, issued to GATX Ventures, Inc. on May 31, 2001
#10.16(i)	Lease between President and Fellows of Harvard College and the Registrant, dated November 8, 2004, for space at the premises located at 300 North Beacon Street, Watertown, MA 02472 and 311 Arsenal Street, Watertown, MA 02472
10.17(xiv)	First Amendment to Lease by and between the Registrant and President and Fellows of Harvard College, dated May 16, 2011
10.18*	Second Amendment to Lease by and between the Registrant and President and Fellows of Harvard College, dated November 7, 2011
10.19(v)	Deed of Lease by and between RMZ Infotech Private Limited and Athena Net India Private Limited, dated April 28, 2009, for space at the premises located at Unit No. 701, Campus 3B, RMZ Millenia Tech Park, 143, Dr.MGR Road, Perungudi, Chennai 600 113
10.20*	Lease Deed by and between M/S. Faery Estates Private Limited and athenahealth Technology Private Limited, dated October 24, 2011, for space at the premises located at Unit No. 3 and 4, 9th Floor, MGR Salai (Veeranam Road), Kandanchavadi, Perungudi, Chennai, 600096.
#10.21(i)	Agreement of Lease by and between Sentinel Properties -- Bedford, LLC and the Registrant, dated May 8, 2007
10.22(ii)	Purchase Agreement dated November 28, 2007, between the Registrant and Bracebridge Corporation
#10.23(iv)	Master Agreement by and between the Registrant and Vision Business Process Solutions Inc., dated June 30, 2008
#10.24(vii)	Professional Services Agreement by and between the Registrant and International Business Machines Corporation dated as of October 2, 2009
#10.25(xii)	Amendment No. 1 to Professional Services Agreement by and between the Registrant and International Business Machines Corporation, dated March 11, 2011
#10.26(vii)	Master Agreement for U.S. Availability Services between SunGard Availability Services LP and the Registrant, dated December 1, 2009, as amended
#10.27(x)	Second Amended and Restated Marketing and Sales Agreement by and between the Registrant and WorldMed Shared Services, Inc. (d/b/a PSS World Medical Shared Services, Inc.), dated October 21, 2010
10.28(xiv)	Purchase and Sale Agreement by and between the Registrant and Point Lookout, LLC, dated March 29, 2011, as amended May 12, and May 26, 2011

Exhibit No.	Exhibit Index
10.29(xv)	Credit Agreement among the Registrant, Bank of America, N.A., as Administrative Agent, Swing Line Lender, and L/C Issuer, and the other lenders from time to time party thereto, dated October 20, 2011, and exhibits and schedules thereunder
21.1*	Subsidiaries of the Registrant
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Rule 13a-14(a) or 15d-14 Certification of Chief Executive Officer
31.2*	Rule 13a-14(a) or 15d-14 Certification of Chief Financial Officer
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
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.LAB**	XBRL Labels Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document
101.DEF**	XBRL Definition Linkbase Document

† Indicates a management contract or any compensatory plan, contract, or arrangement.

Application has been made to the Securities and Exchange Commission for confidential treatment of certain provisions. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

(i) Incorporated by reference to the Registrant's registration statement on Form S-1 (File No. 333-143998).

(ii) Incorporated by reference to the Registrant's current report on Form 8-K, filed November 29, 2007.

(iii) Incorporated by reference to the Registrant's quarterly report on Form 10-Q, filed May 6, 2008.

(iv) Incorporated by reference to the Registrant's quarterly report on Form 10-Q, filed August 5, 2008.

(v) Incorporated by reference to the Registrant's quarterly report on Form 10-Q, filed August 6, 2009.

(vi) Incorporated by reference to the Registrant's current report on Form 8-K, filed October 5, 2009.

(vii) Incorporated by reference to the Registrant's annual report on Form 10-K, filed March 15, 2010.

(viii) Incorporated by reference to the Registrant's quarterly report on Form 10-Q, filed May 3, 2010.

(ix) Incorporated by reference to the Registrant's quarterly report on Form 10-Q, filed October 22, 2010.

(x) Incorporated by reference to the Registrant's annual report on Form 10-K, filed February 18, 2011.

(xi) Incorporated by reference to the Registrant's current report on Form 8-K, filed February 22, 2011.

(xii) Incorporated by reference to the Registrant's quarterly report on Form 10-Q, filed April 29, 2011.

(xiii) Incorporated by reference to the Registrant's current report on Form 8-K, filed July 21, 2011.

(xiv) Incorporated by reference to the Registrant's quarterly report on Form 10-Q, filed July 22, 2011.

(xv) Incorporated by reference to the Registrant's quarterly report on Form 10-Q, filed October 21, 2011.

* Filed herewith.

** Extensible Business Reporting Language (XBRL) information is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ATHENAHEALTH, INC.

By: /s/ Jonathan Bush
Jonathan Bush
Chief Executive Officer, President, and Chairman

By: /s/ Timothy M. Adams
Timothy M. Adams
Chief Financial Officer,
Senior Vice President and Treasurer

Date: February 16, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jonathan Bush (Jonathan Bush)	Chief Executive Officer, President, and Chairman (Principal Executive Officer)	February 16, 2012
/s/ Timothy M. Adams (Timothy M. Adams)	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer & Principal Accounting Officer)	February 16, 2012
/s/ Ruben J. King-Shaw, Jr. (Ruben J. King-Shaw, Jr.)	Lead Director	February 16, 2012
/s/ Richard N. Foster (Richard N. Foster)	Director	February 16, 2012
/s/ Brandon H. Hull (Brandon H. Hull)	Director	February 16, 2012
/s/ Dev Ittycheria (Dev Ittycheria)	Director	February 16, 2012
/s/ John A. Kane (John A. Kane)	Director	February 16, 2012
/s/ James L. Mann (James L. Mann)	Director	February 16, 2012
/s/ David E. Robinson (David E. Robinson)	Director	February 16, 2012
/s/ William Winkenwerder, Jr., M.D. (William Winkenwerder, Jr., M.D.)	Director	February 16, 2012

Financial Statements and Supplementary Data

athenahealth, Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
athenahealth, Inc.
Watertown, Massachusetts

We have audited the accompanying consolidated balance sheets of athenahealth, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of athenahealth, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
February 16, 2012

athenahealth, Inc.

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 57,781	$ 35,944
Short-term investments	62,084	80,231
Accounts receivable — net	49,038	36,870
Deferred tax assets	5,245	3,856
Prepaid expenses and other current assets	8,988	6,749
Total current assets	183,136	163,650
Property and equipment — net	52,275	31,899
Restricted cash	5,007	8,691
Software development costs — net	6,974	3,642
Purchased intangibles — net	20,052	12,651
Goodwill	47,307	22,450
Deferred tax assets	12,532	10,959
Investments and other assets	21,503	7,228
Total assets	$ 348,786	$ 261,170
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ —	$ 2,909
Accounts payable	6,318	559
Accrued compensation	28,176	19,178
Accrued expenses	17,774	10,981
Current portion of deferred revenue	6,345	4,978
Interest rate derivative liability	—	490
Current portion of deferred rent	960	1,497
Total current liabilities	59,573	40,592
Deferred rent, net of current portion	2,932	5,960
Deferred revenue, net of current portion	44,281	35,661
Other long-term liabilities	5,529	1,897
Debt and capital lease obligations, net of current portion	—	6,307
Total liabilities	112,315	90,417
Commitments and contingencies (note 14)		
Preferred stock; $0.01 par value: 5,000 shares authorized and no shares issued and outstanding at December 31, 2011 and 2010, respectively	—	—
Common stock; $0.01 par value per share; 125,000 shares authorized; 36,678 shares issued and 35,400 shares outstanding at December 31, 2011 35,808 shares issued and 34,530 shares outstanding at December 31, 2010	367	358
Additional paid-in capital	247,131	200,339
Treasury stock, at cost, 1,278 shares	(1,200)	(1,200)
Accumulated other comprehensive (loss) income	(101)	28
Accumulated deficit	(9,726)	(28,772)
Total stockholders' equity	236,471	170,753
Total liabilities and stockholders' equity	$ 348,786	$ 261,170

The accompanying notes are an integral part of the consolidated financial statements

athenahealth, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

	Years Ended December 31,		
	2011	2010	2009
Revenue:			
Business services	$ 312,768	$ 237,145	$ 183,230
Implementation and other	11,299	8,393	5,297
Total revenue	324,067	245,538	188,527
Expenses:			
Direct operating costs	122,795	96,582	79,017
Selling and marketing	79,775	52,675	34,072
Research and development	23,343	18,448	14,348
General and administrative	48,711	43,119	36,111
Depreciation and amortization	16,710	11,117	7,767
Total expenses	291,334	221,941	171,315
Operating income	32,733	23,597	17,212
Other income (expense):			
Interest income	396	309	1,016
Interest expense	(314)	(753)	(968)
(Loss) gain on interest rate derivative contract	(73)	(199)	590
Other income	138	146	255
Total other income (expense)	147	(497)	893
Income before income tax provision	32,880	23,100	18,105
Income tax provision	(13,834)	(10,396)	(8,829)
Net income	19,046	12,704	9,276
Net income per share — basic	$ 0.54	$ 0.37	$ 0.28
Net income per share — diluted	$ 0.53	$ 0.36	$ 0.27
Weighted average shares used in computing net income per share:			
Basic	35,046	34,181	33,584
Diluted	36,050	35,204	34,917

The accompanying notes are an integral part of the consolidated financial statements

athenahealth, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Amounts in thousands)

	Common Stock		Additional Paid-In Captial	Treasury Stock		Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders Equity	Total Comprehensive Income
	Shares	Amount		Shares	Amount				
BALANCE — December 31, 2008	34,645	$ 346	$ 156,303	(1,278)	$(1,200)	$ 338	$(50,752)	$105,035	
Stock compensation expense			8,314					8,314	
Stock options exercised	488	5	1,890					1,895	
Common stock issued under employee stock purchase plan	33	1	780					781	
Tax benefit realized from stock-based awards			2,428					2,428	
Net income							9,276	9,276	$ 9,276
Unrealized holding gain on available-for-sale- investments, net of $17 tax						(262)		(262)	(262)
Foreign currency translation adjustment						(149)		(149)	(149)
Total Comprehensive Income								—	$ 8,865
BALANCE — December 31, 2009	35,166	352	169,715	(1,278)	(1,200)	(73)	(41,476)	127,318	
Stock compensation expense			14,477					14,477	
Stock options exercised and restricted stock units vested	605	5	7,522					7,527	
Common stock issued under employee stock purchase plan	37	1	1,078					1,079	
Tax benefit realized from stock-based awards			7,547					7,547	
Net income							12,704	12,704	12,704
Unrealized holding gain on available-for-sale- investments, net of $7 tax						(52)		(52)	(52)
Foreign currency translation adjustment						153		153	153
Total Comprehensive Income								—	$ 12,805
BALANCE — December 31, 2010	35,808	358	200,339	(1,278)	(1,200)	28	(28,772)	170,753	
Stock compensation expense			18,901					18,901	
Stock options exercised and restricted stock units vested	816	8	12,320					12,328	
Common stock issued under employee stock purchase plan	54	1	1,768					1,769	
Tax benefit realized from stock-based awards			13,803					13,803	
Net income							19,046	19,046	19,046
Unrealized holding gain on available-for-sale- investments, net of $1 tax						(6)		(6)	(6)
Foreign currency translation adjustment						(123)		(123)	(123)
Total Comprehensive Income								—	$ 18,917
BALANCE — December 31, 2011	36,678	$ 367	$ 247,131	(1,278)	$(1,200)	$ (101)	$ (9,726)	$236,471	

The accompanying notes are an integral part of the consolidated financial statements

athenahealth, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Years Ended December 31,		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 19,046	$ 12,704	$ 9,276
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,030	12,956	8,403
Amortization of premiums (discounts) on investments	1,579	1,152	(113)
Provision for uncollectible accounts	1,122	1,772	999
Deferred income taxes	(2,962)	1,013	5,918
Excess tax benefit from stock-based awards	(14,208)	(9,245)	(2,505)
Stock-based compensation expense	18,901	14,477	8,314
Increase (decrease) in fair value of contingent consideration	40	(250)	—
Loss (gain) on interest rate derivative contract	73	199	(590)
Disposal of property and equipment	—	—	276
Changes in operating assets and liabilities:			
Accounts receivable	(12,130)	(5,319)	(10,489)
Prepaid expenses and other current assets	11,787	5,461	(887)
Other long-term assets	489	(243)	(173)
Accounts payable	688	(1,024)	1,379
Accrued expenses	10,887	4,425	6,201
Deferred revenue	9,987	7,917	7,438
Deferred rent	(3,565)	(1,275)	(1,118)
Net cash provided by operating activities	60,764	44,720	32,329
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capitalized software development costs	(7,779)	(3,881)	(2,555)
Purchases of property and equipment	(16,696)	(15,932)	(10,277)
Proceeds from sales and disposals of property and equipment	—	363	4,538
Proceeds from sales and maturities of investments	168,083	110,741	84,014
Purchases of short-term and long-term investments	(165,657)	(145,443)	(79,138)
Payments for acquisitions	(34,882)	—	(22,391)
Change in restricted cash	3,684	525	(7,368)
Net cash used in investing activities	(53,247)	(53,627)	(33,177)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock under stock plans	14,097	8,606	2,676
Excess tax benefit from stock-based awards	14,208	9,245	2,505
Payment of contingent consideration accrued at acquisition date	(3,355)	(195)	—
Financing fee for line of credit	(741)	—	—
Payment to terminate interest rate derivative contract	(563)	—	—
Payments on long-term debt and capital lease obligations	(9,216)	(3,535)	(2,514)
Net cash provided by financing activities	14,430	14,121	2,667
Effects of exchange rate changes on cash and cash equivalents	(110)	204	(226)
Net increase in cash and cash equivalents	21,837	5,418	1,593
Cash and cash equivalents at beginning of year	35,944	30,526	28,933
Cash and cash equivalents at end of year	$ 57,781	$ 35,944	$ 30,526
Non-cash transactions			
Property and equipment recorded in accounts payable and accrued expenses	$ 8,066	$ 214	$ 510
Tax benefit recorded in prepaid expenses and other current assets	$ 13,803	$ 7,547	$ 2,428
Fair value of contingent consideration at acquisition date	$ 6,836	$ —	$ 5,100
Property and equipment acquired under capital leases	$ —	$ 363	$ 4,538
Additional disclosures			
Cash paid for interest	$ 183	$ 873	$ 836
Cash paid for taxes	$ 2,708	$ 1,636	$ 514

The accompanying notes are an integral part of the consolidated financial statements

athenahealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables in thousands, except per-share amounts)

1. Nature of Operations and Summary of Significant Accounting Policies

General — athenahealth, Inc. (the "Company," "we," "us," or "our") is a business services company that provides ongoing billing, clinical-related, and other related services to its customers. The Company provides these services with the use of athenaNet, a proprietary Internet-based practice management application. The Company's customers consist of medical group practices ranging in size throughout the United States of America.

Principles of Consolidation — The accompanying consolidated financial statements include the results of operations of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but are not limited to: (1) revenue recognition; including the estimated expected customer life; (2) asset impairments; (3) depreciable lives of assets; (4) fair value of stock-based compensation; (5) allocation of direct and indirect cost of sales; (6) fair value of identifiable purchased tangible and intangible assets and contingent consideration in a business combination and (7) litigation reserves. Actual results could significantly differ from those estimates.

Revenue Recognition — The Company recognizes revenue when there is evidence of an arrangement, the service has been provided to the customer, the collection of the fees is reasonably assured, and the amount of fees to be paid by the customer are fixed or determinable.

The Company derives its revenue from business services fees, implementation fees, and other services. Business services fees include amounts charged for ongoing billing, clinical-related, and other related services and are generally billed to the customer as a percentage of total collections. The Company does not recognize revenue for business services fees until these collections are made, as the services fees are not fixed and determinable until such time. Business services fees also include amounts charged to customers for generating and mailing patient statements and are recognized as the related services are performed.

Implementation revenue consists primarily of professional services fees related to assisting customers with the implementation of the Company's services and are generally billed upfront and recorded as deferred revenue until the implementation is complete and then recognized ratably over the longer of the life of the agreement or the estimated expected customer life, which is currently estimated to be twelve years. The Company evaluates the length of the amortization period of the implementation fees based on our experience with customer contract renewals and consideration of the period over which those customers will receive benefits from our current portfolio of services. Certain expenses related to the implementation of a customer, such as out-of-pocket travel, are typically reimbursed by the customer. This is accounted for as both revenue and expense in the period the cost is incurred. Other services consist primarily of training, consulting services and interface fees and are recognized as the services are performed.

Each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit if both of the following criteria are met: (1) the delivered item or items have value to the customer on a standalone basis and (2) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. The Company

considers a deliverable to have standalone value if we sell this item separately or if the item is sold by another vendor or could be resold by the customer. Further, the Company's revenue arrangements generally do not include a general right of return relative to delivered products. Deliverables not meeting the criteria for being a separate unit of accounting are combined with a deliverable that does meet that criterion. The appropriate allocation of arrangement consideration and recognition of revenue is then determined for the combined unit of accounting. The Company allocates arrangement consideration to each deliverable in an arrangement based on its relative selling price. The Company determines selling price using vendor-specific objective evidence ("VSOE"), if it exists; otherwise, the Company uses third party evidence ("TPE"). If neither VSOE nor TPE of selling price exists for a unit of accounting, the Company uses estimated selling price.

Direct Operating Expenses — Direct operating expenses consist primarily of salaries, benefits, and stock-based compensation related to personnel who provide services to clients; claims processing costs; implementing new clients; and other direct costs related to collection and business services. Costs associated with the implementation of new clients are expensed as incurred. The reported amounts of direct operating expenses do not include allocated amounts for rent and overhead costs (which are included in general and administrative costs), and depreciation and amortization (which are broken out separately on the statement of operations), except for the amortization of certain purchased intangible assets.

Research and Development Expenses — Research and development expenses consist primarily of personnel-related costs and consulting fees for third-party developers. All such costs are expensed as incurred.

Cash and Cash Equivalents — Cash and cash equivalents consist of deposits, money market funds, commercial paper, and other liquid securities with remaining maturities of three months or less at the date of purchase.

Investments — Management determines the appropriate classification of investments at the time of purchase based upon management's intent with regard to such investments. Scheduled maturity dates of U.S. government backed securities, corporate bonds and commercial paper as of December 31, 2011 and 2010, within one year of that date are classified as short-term. Scheduled maturity dates of U.S. government backed securities, corporate bonds and commercial paper as of December 31, 2011 and 2010, in excess of one year are classified as long-term. Investments included in long-term other assets on the consolidated balance sheet include $18.6 million of U.S. government backed securities at December 31, 2011 and $3.5 million of U.S. government backed securities and $2.1 million of commercial paper at December 31, 2010. All investments are recorded at fair value with unrealized holding gains and losses included in accumulated other comprehensive (loss) income. There were no material realized gains and losses on sales of these investments for the periods presented. The Company determines realized gains and losses based on the specific identification method.

Accounts Receivable — Accounts receivable represents amounts due from customers for subscription and implementation services. Accounts receivable are stated net of an allowance for uncollectible accounts, which are determined by establishing reserves for specific accounts and consideration of historical and estimated probable losses.

athenahealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables in thousands, except per-share amounts)

Activity in the allowance for doubtful accounts is as follows:

	Years Ended December 31,		
	2011	2010	2009
Beginning balance	$1,945	$ 1,271	$ 726
Provision	1,122	1,772	999
Write-offs and adjustments	(719)	(1,098)	(454)
Ending balance	$ 2,348	$ 1,945	$1,271

Financial Instruments — Certain financial instruments are required to be recorded at fair value. The other financial instruments approximate their fair value, primarily because of their short-term nature. 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.

Derivative financial instruments have been used to manage certain of the Company's interest rate exposures. The Company does not enter into derivatives for speculative purposes, nor does the Company hold or issue any financial instruments for trading purposes. In October 2008, the Company entered into a derivative instrument that is not designated as hedge which was terminated in May 2011. The Company entered into the derivative instrument to offset the cash flow exposure associated with its interest payments on certain outstanding debt which was paid off in May 2011. Derivatives are carried at fair value, as determined using standard valuation models and adjusted, when necessary, for credit risk and are separately presented on the balance sheet. The gains or losses from changes in the fair value of derivative instruments that are not accounted for as hedges are recognized in earnings and are separately presented.

Property and Equipment — Property and equipment are stated at cost. Equipment, furniture and, fixtures are depreciated using the straight-line method over their estimated useful lives, generally ranging from three to five years. Leasehold improvements are depreciated using the straight-line method over the lesser of the useful life of the improvements or the applicable lease terms, excluding renewal periods. Buildings are depreciated using the straight-line method over 30 years. Building improvements are depreciated using the straight-line method over the lesser of the useful life of the improvement or the remaining life of the building. Costs associated with maintenance and repairs are expensed as incurred. The airplane and land improvements are depreciated using the straight-line method over 20 years and 10 years, respectively.

Long-Lived Assets — Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability of long-lived assets is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition, as compared with the asset carrying value. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less costs to sell. No impairment losses have been recognized in the years ended December 31, 2011, 2010, or 2009.

Restricted Cash — Restricted cash consists of $4.2 million in escrowed amounts relating to the purchase of Anodyne (see Note 2) as of December 31, 2011. A portion of this amount is subject to payment in 2012 if Anodyne achieves certain business and financial milestones. The remaining restricted cash balance as of December 31, 2011, consists of funds held under a letter of credit as a condition of the Company's operating lease for its corporate headquarters. The letter of credit will remain in effect during the term of the lease agreement.

athenahealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables in thousands, except per-share amounts)

Software Development Costs — The Company accounts for software development costs based on required criteria and timing. Costs related to the preliminary project stage of subsequent versions of athenaNet or other technologies are expensed as incurred. Costs incurred in the application development stage are capitalized, and such costs are amortized over the software's estimated economic life. The estimated useful life of the software is two years. Amortization expense was $4.4 million, $2.6 million, and $2.1 million for the years ended December 31, 2011, 2010, and 2009, respectively. Future amortization expense for all software development costs capitalized as of December 31, 2011, is estimated to be $4.9 million and $2.1 million for the years ending December 31, 2012, and 2013, respectively.

Goodwill — Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the identifiable net tangible and intangible assets acquired. Goodwill is not amortized but is evaluated for impairment annually or more frequently if indicators of impairment are present or changes in circumstances suggest that impairment may exist. The Company evaluates the carrying value of its goodwill annually on November 30. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the Company's reporting unit exceeds its carrying amount, the goodwill of the reporting unit is considered not impaired. If the carrying amount of the Company's reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. No impairment losses have been recognized in the years ended December 31, 2011, 2010, and 2009.

Purchased Intangibles — Purchased intangibles consist of technology, non-compete agreements and customer relationships acquired in connection with business acquisitions and are amortized over their estimated useful lives on a straight-line basis. The Company concluded that use of the straight-line method was appropriate as the majority of the cash flows will be recognized ratably over the estimated useful lives and there is no degradation of the cash flows over time.

Accrued expenses and accrued compensation — Accrued expenses consist of the following:

	As of December 31,	
	2011	2010
Accrued bonus	$ 13,677	$ 9,599
Accrued vacation	3,517	2,342
Accrued payroll	7,008	4,895
Accrued commissions	3,974	2,342
Accrued compensation expenses	$28,176	$19,178
Accrued expenses	$10,958	$ 7,301
Accrued property and equipment additions	3,269	—
Current portion of accrued contingent consideration	3,547	3,680
Accrued expenses	$ 17,774	$ 10,981

Deferred Rent — Deferred rent consists of rent escalation payment terms, tenant improvement allowances and other incentives received from landlords related to the Company's operating leases for its facilities. Rent escalation represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including any construction period. The excess is

recorded as a deferred credit in the early periods of the lease, when cash payments are generally lower than straight-line rent expense, and is reduced in the later periods of the lease when payments begin to exceed the straight-line expense. Tenant allowances from landlords for tenant improvements are generally comprised of cash received from the landlord as part of the negotiated terms of the lease or reimbursements of moving costs. These cash payments are recorded as deferred rent from landlords and are amortized as a reduction of periodic rent expense, over the term of the applicable lease.

Deferred Revenue — Deferred revenue primarily consists of billings or payments received in advance of the revenue recognition criteria being met. Deferred revenue includes certain deferred implementation services fees which are recognized as revenue ratably over the longer of the life of the agreement or the estimated expected customer life, which is currently estimated to be twelve years. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

Business Combinations — The Company applies business combination accounting when they have acquired control over one or more businesses. Business Combinations are accounted for at fair value. The associated acquisition costs are generally expensed as incurred and recorded in general and administrative expenses; non-controlling interests, if any, are reflected at fair value at the acquisition date; in-process research and development ("IPR&D"), if any, is recorded at fair value as an intangible asset at the acquisition date; restructuring costs associated with a business combination, if any, are generally expensed rather than capitalized; contingent consideration is measured at fair value at the acquisition date, with changes in the fair value after the acquisition date affecting earnings; changes in deferred tax asset valuation allowances and income tax uncertainties after the measurement period will affect income tax expense; and goodwill is determined as the excess of the fair value of the consideration conveyed in the acquisition over the fair value of the net assets acquired. The accounting for business combinations requires estimates and judgments as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets and liabilities acquired. The fair values assigned to tangible and intangible assets acquired and liabilities assumed, including contingent consideration, are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets. We have applied this acquisition method to the transactions described in Note 2.

Concentrations of Credit Risk — Financial instruments that potentially subject the Company to concentrations of credit risk are cash equivalents, investments, derivatives, and accounts receivable. The Company attempts to limit its credit risk associated with cash equivalents, investments by investing in highly rated corporate and financial institutions, and engaging with highly rated financial institutions as a counterparty to its derivative transaction. With respect to customer accounts receivable, the Company manages its credit risk by performing ongoing credit evaluations of its customers. No customer accounted for more than 10% of revenues or accounts receivable as of or for the years ended December 31, 2011, 2010, or 2009.

Income Taxes — Deferred tax assets and liabilities relate to temporary differences between the financial reporting and income tax bases of assets and liabilities and are measured using enacted tax rates and laws expected to be in effect at the time of their reversal. A valuation allowance is established to reduce net deferred tax assets if, based on the available positive and negative evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and recent financial results.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables in thousands, except per-share amounts)

The Company recognizes a tax benefit from an uncertain tax position when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Our income tax positions must meet a more-likely-than-not recognition threshold at the balance sheet date to be recognized in the related period. The Company's policy is to record interest and penalties related to unrecognized tax benefits in income tax expense.

Sales and Use Taxes — The Company's services are subject to sales and use taxes in certain jurisdictions. The Company's contractual agreements with its customers provide that payment of any sales or use taxes assessments are the responsibility of the customer. In certain jurisdictions sales taxes are collected from the customer and remitted to the respective agencies. These taxes are recorded on a net basis and excluded from revenue and expense in our financial statements as presented.

Segment Reporting — Operating segments are identified as components of an enterprise about which separate discrete financial information is evaluated by the chief decision-maker ("CODM"), or decision-making group, in making decisions regarding resource allocation and assessing performance. The Company, which uses consolidated financial information in determining how to allocate resources and assess performance, has determined that it operates in one segment and the CODM uses non-GAAP operating income (defined as Operating Income as shown in the Consolidated Statement of Operations less total stock-based compensation expense and amortization expense related to purchased intangibles for the period) as the measure of the Company's profit on a regular basis.

Stock-Based Compensation — The Company accounts for share-based awards, including shares issued under employee stock purchase plans, stock options, and share-based awards with compensation cost measured using the fair value of the awards issued. The Company uses the Black-Scholes option pricing model to value share-based awards and determine the related compensation expense. The assumptions used in calculating the fair value of share-based awards represent management's best estimates. The Company generally issues previously unissued shares for the exercise of stock options; however the Company may reissue previously acquired treasury shares to satisfy these issuances in the future.

Foreign Currency Translation — The financial position and results of operations of the Company's foreign subsidiary are measured using local currency as the functional currency. Assets and liabilities are translated at the rate of exchange in effect at the end of each reporting period. Revenues and expenses are translated at the average exchange rate for the period. Foreign currency translation gains and losses are recorded within other comprehensive (loss) income.

2. ACQUISITIONS

Proxsys

On August 31, 2011, the Company acquired Proxsys LLC ("Proxsys"). The acquisition broadens the Company's offerings by bringing order transmission, pre-certification and pre-registration capabilities to the Company's service platform. The results of Proxsys's operations are included in the statement of operations of the combined entity since the date of acquisition. The Company incurred legal costs and professional fees in connection with the acquisition of $0.7 million which are included in general and administrative expense.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables in thousands, except per-share amounts)

The following table summarizes the total consideration on the acquisition date:

Cash payments	$28,000
Contingent consideration	6,836
Less cash acquired	(106)
Fair value of total consideration	$ 34,730

The final cash payment amount was subject to a working capital adjustment which was finalized during the quarter ended December 31, 2011. Contingent consideration is recorded at fair value as an element of purchase price with subsequent adjustments recognized in the consolidated statement of operations. The contingent consideration is discussed in Note 4.

The fair values assigned to the contingent consideration and the tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. We finalized those valuations during the quarter ended December 31, 2011. The fair value assigned to the purchased intangible related to customer relationships increased by $1.0 million as of the acquisition date as a result of this measurement period adjustment with a corresponding adjustment to the carrying value of goodwill of $1.0 million. The related impact on the amortization recognized from that date is insignificant to the statement of operations.

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed:

Accounts receivable	$ 1,160
Other current and long-term assets	70
Property and equipment	206
Purchased Intangibles:	
Developed technology	230
Customer relationships	8,900
Non compete agreement	500
Accounts payable and accrued expenses	(318)
Accrued compensation	(875)
Total identifiable net assets	9,873
Goodwill	24,857
	$ 34,730

The intangibles are being amortized between 2-10 years, with customer lists being amortized over 10 years. The goodwill resulting from the acquisition arises largely from the synergies expected from combining the operations of the acquisition with our existing service operations, as well as from the benefits derived from the assembled workforce of the acquisition. The goodwill recognized is deductible for tax purposes.

Point Lookout

On June 24, 2011, the Company purchased certain net assets of the Point Lookout facility located near Belfast, Maine for a purchase price of $7.7 million, which was adjusted for certain working capital adjustments

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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to arrive at a total cash consideration of $7.0 million. The facility will serve as the Company's client and employee training center. The valuation of the acquired land, property and equipment was finalized during the quarter ended September 30, 2011. The identifiable assets acquired and liabilities assumed included $0.1 million in prepaid and other current assets, $7.7 million of property and equipment and $0.8 million in accrued expenses. There was no goodwill or bargain purchase gain recorded as a result of this transaction. The Company incurred legal and professional fees in connection with the acquisition of $0.5 million which are included in general and administrative expenses.

Anodyne Health Partners, Inc.

On October 16, 2009, the Company acquired Anodyne Health Partners, Inc. ("Anodyne"), a software enabled service business intelligence company based in Alpharetta, Georgia. The Company believes that the acquisition of Anodyne provides the Company with expanded service offerings that will better enable it to compete in the large medical group market. The Anodyne software as a service business intelligence tool enhances customers' ability to view all facets of its revenue cycle information and to access and extract critical operational and administrative information from various data systems. The Company used existing cash to fund the acquisition of Anodyne, following which Anodyne became a wholly-owned subsidiary of the Company.

The Company has accounted for the acquisition as a business combination using the acquisition method. The Company incurred legal costs and professional fees in connection with the acquisition of $0.7 million which are included in general and administrative expenses. The results of Anodyne's operations are included in the statement of operations of the combined entity since the date of acquisition.

The following table summarizes the total consideration transferred on the acquisition date:

Cash payments	$ 22,300
Contingent consideration	5,100
Cash acquired	(50)
Fair value of total consideration	$27,350

The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques.

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed:

Current assets and other assets	$ 757
Property and equipment	128
Purchased Intangibles:	
Technology	2,000
Customer relationships	11,200
Deferred tax asset	(2,206)
Accrued expenses and other liabilities	(1,041)
Deferred revenue	(250)
Total identifiable net assets	10,588
Goodwill	16,762
	$ 27,350

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The Company does not consider these acquisitions above to be material to its consolidated results of operations and is therefore not presenting pro forma financial information of revenue and operations. The Company has also determined that the presentation of the results of revenue and operations for each of these acquisitions, from the date of acquisition, is impracticable and immaterial.

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, restricted stock units, shares to be purchased under the employee stock purchase plan 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 anti-dilutive 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.

	Years Ended December 31,		
	2011	2010	2009
Net income	$19,046	$12,704	$ 9,276
Weighted average shares used in computing basic net income per share	35,046	34,181	33,584
Net income per share — basic	$ 0.54	$ 0.37	$ 0.28
Net income	$19,046	$12,704	$ 9,276
Weighted average shares used in computing basic net income per share	35,046	34,181	33,584
Effect of dilutive securities	1,004	1,023	1,333
Weighted average shares used in computing diluted net income per share	36,050	35,204	34,917
Net income per share — diluted	$ 0.53	$ 0.36	$ 0.27

The computation of diluted net income per share does not include 0.8 million and 0.9 million options and restricted stock units for the year ended December 31, 2011 and 2010, because their inclusion would have an anti-dilutive effect on net income per share. The computation of diluted net income per share does not include 1.0 million options for the year ended December 31, 2009, because their inclusion would have an anti-dilutive effect on net income per share.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of December 31, 2011 and 2010, the carrying amounts of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued expenses approximated their estimated fair values because of their short term nature of these financial instruments. Included in cash and cash equivalents as of December 31, 2011 and 2010, are money market fund investments of $33.4 million and $10.8 million, respectively, which are reported at fair value.

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At December 31, 2010, 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 December 31, 2011 and 2010, and indicates the fair value hierarchy of the valuation techniques the Company 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 similar instruments. The fair values determined by Level 3 inputs are unobservable values which are supported by little or no market activity.

	Fair Value Measurements as of December 31, 2011 Using			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market	$ 33,444	$ —	$ —	$ 33,444
Commercial paper	—	7,250	—	7,250
Available-for-sale investments:				
Commercial paper	—	6,499	—	6,499
Corporate bonds	—	40,833	—	40,833
U.S. government backed securities	—	33,370	—	33,370
Total assets	$ 33,444	$87,952	$ —	$121,396
Accrued contingent consideration	$ —	$ —	$(8,176)	$ (8,176)
Total liabilities	$ —	$ —	$(8,176)	$ (8,176)

	Fair Value Measurements as of December 31, 2010 Using			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market	$10,799	$ —	$ —	$ 10,799
Corporate bonds	—	577	—	577
Available-for-sale investments:				
Commercial paper	—	29,642	—	29,642
Corporate bonds	—	40,676	—	40,676
U.S. government backed securities	—	15,494	—	15,494
Total assets	$10,799	$86,389	$ —	$ 97,188
Accrued contingent consideration	$ —	$ —	$(4,655)	$ (4,655)
Interest rate swap derivative contract	—	(490)	—	(490)
Total liabilities	$ —	$ (490)	$(4,655)	$ (5,145)

U.S. government backed securities, corporate bonds, 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. It is the Company's policy to recognize transfers between levels of the fair value hierarchy, if any, at the end of the reporting period however there have been no such transfers during the years ended December 31, 2011 and 2010.

Contingent consideration is recorded at fair value as an element of purchase price with subsequent adjustments recognized in the consolidated statement of operations. At the acquisition date and reporting date, the fair value of the accrued contingent consideration was determined using a probability-weighted income approach based on upside, downside and base case scenarios. This approach is based on significant inputs that are not observable in the market, which are referred to as Level 3 inputs. As of December 31, 2011 and 2010, the Company has accrued a liability of $8.2 million and $4.7 million, respectively, for the estimated fair value of contingent considerations estimated to be payable upon the acquired company reaching specific performance metrics over a specific period of operations after acquisition. The elements that make up the contingent consideration are as follows:

Anodyne

The first potential contingent consideration related to our acquisition of Anodyne Health Partners, Inc. ("Anodyne") in 2009 ranges from zero to $4.8 million and is payable in one installment based upon operational performance for the year ended December 31, 2010. Based on the actual operational performance for the year ended December 31, 2010, the Company had accrued $2.4 million relating to the first potential contingent consideration which was paid in full in March of 2011.

The second potential contingent related to our acquisition of Anodyne in 2009 ranges from zero to $2.9 million and is payable in quarterly installments based upon the cross selling of the Company's services into the acquired company's customer base or customer leads for the years ended December 31, 2010 and 2011, and the six-month period ending June 30, 2012. Any amounts not earned in the first potential contingent consideration can be earned under the second potential contingent consideration in excess of the initial $2.9 million bringing the total potential contingent consideration to $5.3 million. At December 31, 2011, the Company valued the second contingent consideration at $1.4 million. At December 31, 2011 and 2010, key assumptions relating to the second potential contingent consideration include earn-out payments, a probability adjusted level of 50% for the base case scenario and 25% for the upside and downside scenarios. A refinement in the estimated earn-out payment assumptions by scenario resulted in an insignificant decrease in the fair value of the total contingent consideration during the year ended December 31, 2011. The Company paid $955 and $195 during the year ended December 31, 2011 and 2010, respectively under the terms of the second potential contingent consideration. No amounts were paid in 2009.

Proxsys

The first potential contingent consideration related to our acquisition of Proxsys in 2011 ranges from zero to $3.0 million and is payable in one installment in the first quarter of 2013 based upon operational performance for the fiscal year ending December 31, 2012. At December 31, 2011, and the acquisition date, August 31, 2011, the key assumptions relating to this potential contingent consideration includes earn-out payments for the fiscal year and a probability adjusted level of 60% for the base case and 25% and 15% for the upside and downside scenarios, respectively. Based on the forecasts for the fiscal year ended December 31, 2012, the Company valued the contingent consideration at December 31, 2011, and the acquisition date at $2.4 million. The Company determined that there was no change in the assumptions from the date of acquisition to December 31, 2011.

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The second potential consideration related to our acquisition of Proxsys in 2011 ranges from zero to $5.0 million and is payable in quarterly installments based upon the cross selling of the Company's services into the new and acquired company's customer base from acquisition to the second year anniversary of the acquisition in the third quarter of 2013. On December 31, 2011, and the acquisition date, August 31, 2011, the key assumptions relating to this potential contingent consideration included earn-out payments, a probability adjusted level of 65% for the base case and 25% and 10% for the upside and downside scenarios, respectively. The Company valued the contingent consideration at December 31, 2011, and the acquisition date at $4.4 million. The Company determined that there was no change in assumptions from the date of acquisition to December 31, 2011.

The reconciliations for the fair values of financial instruments determined by Level 3 for the years presented, are as follows:

	Years Ended December 31,		
	2011	2010	2009
Balance beginning of period	$4,655	$ 5,100	$ —
Additions	6,836	—	5,100
Payments	(3,355)	(195)	—
Change in fair value (included in General and Administrative Expense)	40	(250)	—
Balance end of period	$ 8,176	$4,655	$5,100

5. INVESTMENTS

The summary of securities as of December 31, 2011, is as follows:

	Amortized Cost	Gross Unrealized Gains (Losses)	Fair Value
Commercial paper	$ 13,739	$ 10	$ 13,749
Corporate bonds	40,863	(30)	40,833
U.S. government backed securities	33,374	(4)	33,370
Total	$87,976	$ (24)	$87,952

The summary of securities as of December 31, 2010, is as follows:

	Amortized Cost	Gross Unrealized Gains (Losses)	Fair Value
Commercial paper	$29,635	$ 7	$29,642
Corporate bonds	40,694	(18)	40,676
U.S. government backed securities	15,500	(6)	15,494
Total	$85,829	$ (17)	$85,812

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6. PROPERTY AND EQUIPMENT

The Company has no capital leases as of December 31, 2011. The gross amount of the Company assets under capital leases as of December 31, 2010, was $7.3 million of equipment, $1.1 million of leasehold and building improvements, and $0.3 million of furniture.

The fair values of the property and equipment acquired as part of the purchase of the Point Lookout facility are allocated as buildings $4.8 million, land and land improvements $2.1 million, and furniture and fixtures $0.6 million.

Property and equipment consist of the following:

	Years Ended December 31,	
	2011	2010
Equipment	$ 43,950	$ 26,889
Furniture and fixtures	3,634	1,672
Leasehold improvements	12,297	10,569
Airplane	3,154	3,154
Building and improvements	14,556	9,075
Land and land improvements	2,921	800
Total property and equipment, at cost	80,512	52,159
Accumulated depreciation and amortization	(33,929)	(21,861)
Construction in progress	5,692	1,601
Property and equipment, net	$ 52,275	$ 31,899

Depreciation expense on property and equipment was $12.2 million, $8.6 million, and $5.7 million for the years ended December 31, 2011, 2010, and 2009, respectively.

7. GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

The following table summarizes the activity relating to the carrying value of the Company's goodwill during the years ended December 31, 2011 and 2010:

Gross balance as of January 1, 2010	$ 22,120
Contingent consideration recorded in connection with Medical Messaging	330
Gross balance as of December 31, 2010	$ 22,450
Goodwill recorded in connection with the acquisition of Proxsys LLC	24,857
Gross balance as of December 31, 2011	$ 47,307

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Purchased Intangible Assets

Intangible assets acquired as of December 31, 2011 and 2010, are as follows:

	December 31, 2011			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (years)
Developed technology	$ 3,391	$ (1,692)	$ 1,699	2.4
Customer relationships	20,966	(3,057)	17,909	8.7
Non compete agreement	500	(56)	444	2.7
Total	$ 24,857	$ (4,805)	$ 20,052	

	December 31, 2010			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (years)
Developed technology	$ 3,161	$ (1,022)	$ 2,139	3.5
Customer relationships	12,066	(1,554)	10,512	8.8
Total	$15,227	$ (2,576)	$12,651	

Amortization expense for the years ended December 31, 2011, 2010, and 2009, was $2.2 million, $1.8 million, and $0.6 million, respectively, and is included in direct operating expenses. Estimated amortization expense, based upon the Company's intangible assets at December 31, 2011, is as follows:

Year ending December 31,	Amount
2012	$ 3,010
2013	2,898
2014	2,524
2015	2,097
2016	2,097
Thereafter	7,426
Total	$20,052

8. OPERATING LEASES AND OTHER COMMITMENTS

The Company maintains operating leases for facilities and certain office equipment. The facility leases contain renewal options and require payments of certain utilities, taxes, and shared operating costs of each leased facility. The rental agreements expire at various dates from 2012 to 2015.

The Company entered into a lease agreement with a landlord in connection with the relocation of its corporate offices in June 2005. Under the terms of such lease agreement, the landlord provided approximately $11.5 million in allowances to the Company for the leasehold improvements for the office space, reimbursement of moving costs and all payments under the Company's lease agreement relating to its previous office space. Prior to May 2011, the incentive payments received from the new landlord were being recognized over the lease term and accounted for as a component of deferred rent on the Company's Consolidated Balance Sheet. In May 2011, the Company paid $2.1 million to settle the remaining amounts of these rental incentive loans.

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The lease agreement contains certain financial and operational covenants. These covenants provide for restrictions on, among other things, a change in control of the Company and certain structural additions to the premises, without prior consent from the landlord. The Company is in compliance with all financial covenants as of December 31, 2011.

Rent expense for the Company totaled $3.5 million, $2.9 million, and $2.4 million for the years ended December 31, 2011, 2010, and 2009, respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2011, are as follows:

Year ending December 31,	Future Rent Payments
2012	6,713
2013	6,946
2014	6,936
2015	4,599
2016	1,993
Thereafter	5,929
Total minimum lease payments	$33,116

9. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	As of December 31,	
	2011	2010
Term loan	$—	$ 5,325
Capital lease obligation	—	3,891
	—	9,216
Less current portion of long-term debt and capital lease obligations	—	(2,909)
Long-term debt and capital lease obligations, net of current portion	$—	$ 6,307

2011 Line of Credit — On October 20, 2011, the Company entered into a $100.0 million new revolving credit agreement ("Revolving Credit Agreement") with a term of five years. The Revolving Credit Agreement replaces the $15.0 million Credit Agreement that expired September 30, 2011. The terms and conditions of the Revolving Credit Agreement are customary to facilities of this nature. The Company was required to pay financing fees of $0.7 million for this Revolving Credit Agreement which is being amortized in interest expense in the Consolidated Statement of Operations over the five year term.

2008 Term and Revolving Loans — On September 30, 2008, the Company entered into a Credit Agreement (the "Credit Agreement") with a financial institution. The Credit Agreement consisted of a revolving credit facility in the amount of $15.0 million and a term loan facility in the amount of $6.0 million (collectively, the "Credit Facility"). In May 2011, the Company repaid the outstanding balance of the term loan and the entire Credit Agreement matured on September 30, 2011.

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Capital Lease Obligation — In June 2007, the Company entered into a master lease and security agreement (the "Equipment Line") with a financing company. The Equipment Line allows for the Company to lease from the financing company eligible equipment purchases, submitted within 90 days of the applicable equipment's invoice date. Each lease has a 36 month term which are payable in equal monthly installments, commencing on the first day of the fourth month after the date of the disbursements of such loan and continuing on the first day of each month thereafter until paid in full. The Company has accounted for these as capital leases. In May 2011 the Company terminated these leases and elected to purchase the assets for approximately $1.0 million. The weighted average interest rate implicit in the leases was 4.3%.

10. STOCKHOLDERS' EQUITY

Preferred Stock — The Company's board of directors has the authority, without further action by stockholders, to issue up to 5,000 shares of preferred stock in one or more series. The Company's board of directors may designate the rights, preferences, privileges, and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference, and number of shares constituting any series or the designation of any series. The issuance of preferred stock could have the effect of restricting dividends on the Company's common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock, or delaying or preventing a change in control. The ability to issue preferred stock could delay or impede a change in control. As of December 31, 2011 and 2010, no shares of preferred stock were outstanding.

Common Stock — Common stockholders are entitled to one vote per share and dividends when declared by the Board of Directors, subject to any preferential rights of preferred stockholders.

Warrants — In connection with equipment financing with a finance company and a bank in May 2001, the Company issued warrants to purchase shares of the Company's stock at an exercise price of $3.08 per share. There remains 32 warrants outstanding and are exercisable through September 2012.

11. STOCK-BASED COMPENSATION

Total stock-based compensation expense for the years ended December 31, 2011, 2010, and 2009, are as follows (no amounts were capitalized):

	Year Ended December 31,		
	2011	2010	2009
Stock-based compensation charged to:			
Direct operating	$ 3,173	$ 2,298	$1,589
Selling and marketing	5,645	3,509	2,126
Research and development	2,311	2,014	1,015
General and administrative	7,772	6,656	3,584
Total	$18,901	$14,477	$ 8,314

In 2007, the board of directors and the Company's stockholders approved the 2007 Stock Option and Incentive Plan (the "2007 Plan"). The 2007 Plan was amended in 2011 to (i) remove an Evergreen Provision which provided for an annual increase, (ii) increased the number of share reserved for issuance, (iii) set minimum restriction periods for stock awards, (iv) set maximum awards payable for performance-based awards, (v) added performance criteria and (vi) other administrative changes. As of December 31, 2011 and 2010, there were approximately 2,494 and 1,298 shares, respectively, available for grant under the Company's stock award plans.

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Stock Option Plan

Options granted under the 2007 Plan may be incentive stock options or non-qualified stock options under the applicable provisions of the Internal Revenue Code. Incentive stock options are granted with exercise prices at or above the fair value of the Company's common stock at the grant date as determined by the Board of Directors. Incentive stock options granted to employees who own more than 10% of the voting power of all classes of stock are granted with exercise prices at 110% of the fair value of the Company's common stock at the date of the grant. Non-qualified stock options may be granted with exercise prices up to the fair value of the Company's common stock on the date of the grant, as determined by the Board of Directors. All options granted vest over a range of one to four years and have contractual terms of between five and ten years. Options granted typically vest 25% per year over a total of four years at each anniversary, with the exception of options granted to members of the board of directors, which vest on a quarterly basis.

The following table presents the stock option activity for the year ended December 31, 2011:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding — January 1, 2011	3,321	$25.94		
Granted	425	47.38		
Exercised	(758)	17.57		
Forfeited	(103)	39.26		
Outstanding — as of December 31, 2011	2,885	$ 30.81	7.0	$ 53,476
Exercisable — as of December 31, 2011	1,476	$25.17	6.0	$35,355
Vested and expected to vest as of December 31, 2011	2,632	$ 30.04	7.0	$ 50,724
Weighted-average fair value of options granted for the year ended December 31, 2011		$ 21.01		

The Company recorded compensation expense in relation to stock options of $10.6 million, $11.8 million, and $8.3 million, for the years ended December 31, 2011, 2010, and 2009, respectively.

The following table illustrates the weighted average assumptions used to compute stock-based compensation expense for awards granted:

	Year Ended December 31,		
	2011	2010	2009
Risk-free interest rate	1% - 2.2%	1.5% - 3.0%	1.9% - 3.0%
Expected dividend yield	0.0%	0.0%	0.0%
Expected option term (years)	5.0	6.25	6.25
Expected stock volatility	51% -54%	45% - 52%	48% - 53%

The risk-free interest rate estimate was based on the U.S. Treasury rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The expected dividend yield was based on the Company's expectation of not paying dividends in the foreseeable future.

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For grants issued during the years ended December 31, 2010 and 2009, the expected option term reflects the application of the simplified method. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches. This methodology was utilized due to the short length of time our common stock had been publicly traded. In 2011, the Company began using company-specific historical information.

Since the Company completed its initial public offering in September 2007, it does not have sufficient history as a publicly traded company to evaluate its volatility factor. As such, the Company analyzed the volatilities of a group of peer companies, including company-specific historical information to date, to support the assumptions used in its calculations. The Company averaged the volatilities of the peer companies with in-the-money options, sufficient trading history and similar vesting terms to generate the assumptions.

As of December 31, 2011 and 2010, there was $20.8 million and $26.4 million, respectively, of unrecognized stock-based compensation expense related to unvested stock option share-based compensation arrangements granted under the Company's stock award plans. This expense is expected to be recognized over a weighted-average period of approximately 2.3 years. The weighted average fair value of stock options granted during fiscal 2011, 2010, and 2009, was $21.01, $19.06, and $14.56, respectively. The intrinsic value of shares purchased during fiscal 2011, 2010, and 2009, was $26.1 million, $15.2 million, and $16.5 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of purchase and the exercise price of the options.

Restricted Stock Units

The 2007 Plan also allows for granting of restricted stock unit awards under the terms of the plan. Majority of restricted units vest in four equal, annual installments on the anniversaries of the vesting start date or in four equal, quarterly installments on anniversaries of the vesting date. The Company estimated the fair value of the restricted stock units using the market price of its common stock on the date of the grant. The fair value of restricted stock units is amortized on a straight-line basis over the vesting period. The following table presents the restricted stock unit activity for the year ended December 31, 2011.

	Shares	Weighted-Average Grant Date Fair Value
Outstanding — January 1, 2011	292	$ 35.24
Granted	565	47.02
Vested	(82)	34.15
Forfeited	(18)	41.26
Outstanding — as of December 31, 2011	757	$ 43.99

As of December 31, 2011, $27.2 million of total unrecognized compensation costs related to restricted stock units is expected to be recognized over a weighted average period of 2.7 years. This amount does not include the cost of new restricted stock units that may be granted in future periods or any changes in the Company's forfeiture percentage. Stock-based compensation expense of $7.3 million, $2.3 million and $0 was recorded for restricted stock units during the year ended December 31, 2011, 2010 and 2009.

Employee Stock Purchase Plan

The Company's 2007 Employee Stock Purchase Plan ("2007 ESPP") allows employees, officers, and directors to purchase shares of common stock. The purchase price is equal to 85% of the lower of the closing price of the Company's common stock on (1) the first day of the purchase period or (2) the last day of the purchase period. The expense for the years ended December 31, 2011, 2010, and 2009 was $1.0 million, $0.4 million and $0.4 million, respectively.

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12. INCOME TAXES

The components of the Company's income tax provision for the years ended December 31, 2011, 2010, and 2009 are as follows:

	2011	2010	2009
Current Provision:			
Federal	$ 12,264	$ 6,194	$ 174
State	4,397	3,141	2,706
Foreign	135	49	31
	16,796	9,384	2,911
Deferred Provision (Benefit):			
Federal	(1,804)	1,284	6,527
State	(1,158)	(272)	(609)
	(2,962)	1,012	5,918
Total income tax provision	$ 13,834	$10,396	$8,829

The components of the Company's deferred income taxes as of December 31, 2011 and 2010, are as follows:

	2011	2010
Deferred tax assets:		
Federal net operating loss carryforward	$ 1,978	$ 2,181
State net operating loss carryforward	132	211
Research and development tax credits	1,611	1,296
Allowances for accounts receivable	1,610	894
Deferred rent obligation	1,749	2,046
Stock compensation	10,184	5,908
Other accrued liabilities	908	1,184
Deferred revenue	13,672	10,380
Other	1,453	766
Total gross deferred tax assets	33,297	24,866
Valuation allowance	(132)	(211)
Total deferred tax assets	33,165	24,655
Deferred tax liabilities:		
Intangible assets	(4,760)	(4,849)
Capitalized software development	(2,807)	(1,445)
Property and equipment	(8,117)	(3,510)
Investments	(8)	(9)
Other	304	(27)
Total deferred tax liabilities	(15,388)	(9,839)
Net deferred tax assets	$ 17,777	$ 14,815

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The Company classifies its deferred tax assets and liabilities as current or noncurrent based on the classification of the related asset or liability for financial reporting giving rise to the temporary difference. A deferred tax asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to net operating loss ("NOLs") carryforwards, is classified according to the expected reversal date. The Company recorded a valuation allowance against certain state net operating losses related to Anodyne. The Company evaluated the ability to utilize the losses and determined they could not meet the more likely than not standard of utilizing the losses.

As of December 31, 2011, the Company had federal and state NOLs of approximately $22.7 million (which includes $17.0 million of NOLs from stock-based compensation) and $6.3 million (which includes $1.0 million of NOLs from stock-based compensation), respectively, to offset future federal and state taxable income. The state NOLs begin to expire 2012 and the federal NOLs expire at various times from 2022 through 2028. As of December 31, 2010, the Company had federal and state NOLs of approximately $37.9 million (which includes $31.5 million of NOLs from stock-based compensation) and $5.4 million (which includes $1.8 million of NOLs from stock-based compensation), respectively, to offset future federal and state taxable income.

The Company has generated NOLs from stock-based compensation deductions in excess of expenses recognized for financial reporting purposes (excess tax benefits). Excess tax benefits are realized when they reduce taxes payable, as determined using a "with and without" method, and are credited to additional paid-in capital rather than as a reduction of income tax provision. During the years ended December 31, 2011, 2010 and 2009, the Company realized excess tax benefits from federal and state tax deductions of $14.2 million, $9.2 million and $2.5 million, respectively, which was credited to additional paid-in capital. As of December 31, 2011, the amount of unrecognized federal and state excess tax benefits is $6.0 million and $0.1 million, respectively, which will be credited to additional paid-in capital when realized.

During the year ended December 31, 2011, the Company utilized tax federal NOLs to reduce the current tax provision by $0.3 million. During the year ended December 31, 2010, the Company utilized tax federal NOLs carryforwards to reduce the current tax provision by $4.6 million. During the year ended December 31, 2009, the Company utilized tax federal NOLs carryforwards to reduce the current tax provision by $8.0 million.

The Company's federal research and development tax credit carryforward is available to offset future federal and state taxes and expire at various times through 2031.

A reconciliation of the federal statutory income tax rate to the Company's effective income tax rate is as follows for the years ended December 31:

	2011	2010	2009
Income tax computed at federal statutory tax rate	35%	34%	34%
State taxes net of federal benefit	6%	6%	8%
Research and development credits	(1%)	(1%)	(1%)
Permanent differences	2%	5%	8%
Valuation allowance	0%	1%	0%
Total	42%	45%	49%

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A reconciliation of the beginning and ending amount of uncertain tax benefits is as follows:

	2011	2010	2009
Beginning uncertain tax benefits	$ 1,610	$ 986	$ 301
Prior year — decreases	(23)	—	—
Prior year — increases	22	93	18
Current year — increases	76	531	667
Ending uncertain tax benefits	$1,685	$1,610	$986

Included in the balance of unrecognized tax benefits at December 31, 2011, are $1.2 million of tax benefits that, if recognized, would affect the effective tax rate. Included in the 2009 year increases was $1.3 million of unrecognized tax benefits which the Company acquired through its acquisition of Anodyne, Inc. The Company does not expect unrecognized tax benefits will significantly change within 12 months of the reporting date.

The Company is subject to taxation in the United States, various states and India. As of December 31, 2011, tax years 1997 through 2010 — except for 2006 through 2008 for federal purposes — remain open to examination by major taxing jurisdictions to which the Company is subject, which years primarily resulted in carryforward attributes that may still be adjusted upon examination by the Internal Revenue Service or state tax authorities if they have or will be used in a future period.

13. EMPLOYEE BENEFIT PLAN

The Company sponsors a 401(k) retirement savings plan (the "401(k) Plan"), under which eligible employees may contribute, on a pre-tax basis, specified percentages of their compensation, subject to maximum aggregate annual contributions imposed by the Internal Revenue Code of 1986. All employee contributions are allocated to the employee's individual account and are invested in various investment options as directed by the employee. Employees' cash contributions are fully vested and non-forfeitable. The Company may make a discretionary contribution in any year, subject to authorization by the Company's Board of Directors. During the years ended December 31, 2011, 2010, and 2009, the Company's contributions to the Plan were $1.7 million, $1.2 million, and $0.9 million, respectively.

14. COMMITMENTS AND CONTINGENCIES

The Company is engaged from time to time in certain legal disputes arising in the ordinary course of business, including employment discrimination claims and challenges to the Company's intellectual property. The Company believes that it has adequate legal defenses and believes that it is remote that the ultimate dispositions of these actions will have a material effect on the Company's financial position, results of operations, or cash flows. There are no accruals for such claims recorded at December 31, 2011.

The Company's services are subject to sales and use taxes in certain jurisdictions. The Company's contractual agreements with its customers provide that payment of any sales or use tax assessments are the responsibility of the customer. Accordingly, the Company believes that sales and use tax assessments, if applicable, will not have a material effect on the Company's financial position, results of operations, or cash flows.

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Prompt Medical Systems, L.P.

On March 2, 2010, a complaint was filed by Prompt Medical Systems, L.P. naming the Company and several other defendants in a patent infringement case (*Prompt Medical Systems, L.P. v. AllscriptsMisys Healthcare Solutions, Inc. et al.*, Civil Action No. 6:2010cv00071, United States District Court for the Eastern District of Texas). The complaint alleges that the Company has infringed U.S. Patent No. 5,483,443 with a listed issue date of January 9, 1996, entitled "Method for Computing Current Procedural Terminology Codes from Physician Generated Documentation." The complaint seeks an injunction enjoining infringement, damages, and pre- and post-judgment costs and interest. The Company and several other defendants filed motions to dismiss the complaint. On February 11, 2011, the Court issued an order granting-in-part and denying-in-part the motions to dismiss. The Court ordered the plaintiff to replead certain claims within fourteen days of the order.

On February 23, 2011, the plaintiff filed its amended complaint in response to the Court's February 11, 2011, order. The Company filed its answer to the amended complaint on March 9, 2011, denying all allegations of patent infringement, asserting a number of defenses and counterclaiming for a declaration of non-infringement, invalidity, and unenforceability. The Company also filed a joint motion with other defendants seeking sanctions for the plaintiff's spoliation of evidence, which is now fully briefed.

On November 24, 2010, several defendants filed (i) a motion for summary judgment of invalidity against the patent-in-suit on the basis that it claims only non-patentable subject matter and (ii) a motion to stay all proceedings pending the resolution of the motion for summary judgment. The Company filed a motion to join in the motion to stay the proceedings. On September 30, 2011, the Court denied defendant's motion to stay all proceedings pending the resolution of the motion for summary judgment.

A claim construction hearing was held on November 10, 2011. The Court also heard arguments on defendants' motion for summary judgment of invalidity after the claim construction hearing. The Court issued its claim construction order on December 15, 2011. The case is currently in the discovery phase, which was set to close on February 10, 2012. Trial was scheduled for June 11, 2012. On December 28, 2011, the Court granted a joint motion between plaintiff, the Company, and other defendants, to stay the case pending settlement, instructing the parties to file a stipulation of dismissal after execution of the settlement agreement. Settlement discussions are ongoing.

The Company is being indemnified in this lawsuit from and against any liability, pursuant to a license agreement with one of its vendors. That vendor is also providing the Company's defense. The Company believes that it has meritorious defenses to the lawsuit and continues to contest it vigorously.

PPS Data, LLC

On July 28, 2011, a complaint was filed by PPS Data, LLC naming the Company in a patent infringement case (*PPS Data, LLC v. athenahealth, Inc.*, Civil Action No. 3:11-cv-00746, United States District Court for the Middle District of Florida). The complaint alleges that the Company has infringed U.S. Patent No. 6,343,271 with a listed issue date of January 29, 2002, entitled "Electronic Creation, Submission, Adjudication, and Payment of Health Insurance Claims" (the "271 Patent"). The complaint seeks an injunction enjoining infringement, damages, pre- and post-judgment costs and interest, and attorneys' fees. On September 8, 2011, the Company filed a motion to dismiss, or, in the alternative, a motion for summary judgment. On October 18, 2011, the plaintiff filed a motion for leave to amend its complaint to allege that the Company has infringed on U.S. Patent No. 6,341,265 with a listed issue date of January 22, 2002, entitled "Provider claim editing and settlement system," and U.S. Patent No. 7,194,416 with a listed issue date of March 20, 2007, entitled "Interactive creation and adjudication of health care insurance claims." The Court granted the plaintiff's motion for leave to amend its complaint on December 21, 2011, and on December 23, 2011, the plaintiff filed its amended complaint. On

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December 27, 2011, the Company filed a motion to dismiss, or, in the alternative, a motion for summary judgment of non-infringement with respect to the '271 Patent. On December 29, 2011, the United States Patent and Trademark Office granted the Company's request for reexamination of the '271 Patent. On January 9, 2012, the Company filed a motion to stay the case pending completion of the patent reexamination. The Court has not yet ruled on this motion. The Company believes that it has meritorious defenses to the amended complaint and will continue to contest the claims vigorously.

Medsquire, LLC

On December 7, 2011, a complaint was filed by Medsquire, LLC against the Company in a patent infringement case (*Medsquire, LLC v. athenahealth, Inc.*, Civil Action No. 2:11-CV-10126-JHN-PLA, United States District Court for the Central District of California). The complaint alleges that the Company has infringed U.S. Patent No. 5,682,526 with a listed issue date of October 28, 1997, entitled "Method and System for Flexibly Organizing, Recording, and Displaying Medical Patient Care Information Using Fields in a Flowsheet." The complaint seeks damages, pre-judgment interest, and attorneys' fees. The Company believes that it has meritorious defenses to the complaint and will contest the claims vigorously.

AdvancedMD Software, Inc.

On July 18, 2011, the Company filed a complaint against AdvancedMD Software, Inc. in the United States District Court for the District of Massachusetts. The complaint alleges that AdvancedMD Software, Inc. has infringed two of the Company's U.S. Patents: No. 7,617,116, which was issued on November 10, 2009, for "Practice Management and Billing Automation System" and No. 7,720,701, which was issued on May 18, 2010, for "Automated Configuration of Medical Practice Management Systems." The Company is seeking permanent injunctive relief, damages, pre- and post-judgment costs and interest, and attorneys' fees.

Cordjia, LLC

On July 18, 2011, a complaint was filed in the Superior Court for Waldo County, Maine, against the Company entitled *Cordjia, LLC v. athenahealth, Inc*. The complaint alleges that the Company entered into a partnership with the plaintiff to purchase property in Maine, that the parties entered into a mutual non-disclosure agreement governing the sharing of confidential information between them, and that the Company subsequently terminated the partnership and purchased the property itself, using the confidential information obtained from the plaintiff to do so. The complaint purports to state claims for common-law fraud, negligent misrepresentation, breach of fiduciary duty, unjust enrichment, *quantum meruit*, promissory estoppel, breach of contract, and violation of the Maine Uniform Trade Secrets Act. The complaint seeks unspecified damages, fees and costs, and injunctive relief enjoining the Company from making further use of the plaintiff's confidential information and requiring the Company to return all confidential information in its possession to the plaintiff. On August 8, 2011, the Company filed a motion to dismiss for improper venue. On November 17, 2011, the Court granted the Company's motion to dismiss for improper venue as to the claims for unjust enrichment, *quantum meruit*, breach of contract, and violation of the Maine Uniform Trade Secret Act, and denied the Company's motion as to the other claims. On December 19, 2011, the Company filed motions to dismiss the remaining claims.

On December 8, 2011, a complaint was filed in the Superior Court for New Castle County, Delaware against the Company entitled *Cordjia, LLC v. athenahealth, Inc.* The complaint pertains to the same facts as stated above and alleges claims for breach of contract, unjust enrichment, *quantum meruit*, and violation of the Delaware Uniform Trade Secrets Act. The complaint seeks unspecified damages, fees and costs, an injunction enjoining the Company from making any further use of the confidential information, and an order requiring the Company to return any copies of confidential information. On February 2, 2012, the Company filed a motion to dismiss the complaint.

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The Company believes that it has meritorious defenses to the complaints and intends to contest the claims vigorously.

Kickapoo Run, LLC

On September 16, 2011, a complaint was filed by Kickapoo Run, LLC naming the Company and several other defendants in a patent infringement case (*Kickapoo Run, LLC v. athenahealth, Inc. et al.*, Civil Action No. 1:99-mc-09999, United States District Court for the District of Delaware). The complaint alleges that the Company has infringed U.S. Patent No. 5,961,332 with a listed issue date of October 5, 1999, entitled "Apparatus for Processing Psychological Data and Method of Use Thereof." The complaint seeks an injunction enjoining infringement, damages, costs, expenses, pre- and post-judgment interest, and attorneys' fees. The Company believes that it has meritorious defenses to the complaint and will contest the claims vigorously.

In addition, from time to time the Company may be subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. The Company does not, however, currently expect that the ultimate costs to resolve any pending matter will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

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15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Selected quarterly financial information follows for the year ended December 31, 2011:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenue:					
Business services	$ 67,486	$ 75,349	$ 80,640	$ 89,293	$ 312,768
Implementation and other	2,444	2,536	3,100	3,219	11,299
Total revenue	69,930	77,885	83,740	92,512	324,067
Expenses:					
Direct operating costs	27,270	29,020	31,695	34,810	122,795
Selling and marketing	16,941	18,815	20,784	23,235	79,775
Research and development	5,079	5,166	6,141	6,957	23,343
General and administrative	11,719	11,718	11,869	13,405	48,711
Depreciation and amortization	3,398	3,737	4,749	4,826	16,710
Total expenses	64,407	68,456	75,238	83,233	291,334
Operating income	5,523	9,429	8,502	9,279	32,733
Other income (expense):					
Interest income	107	109	84	96	396
Interest expense	(177)	(54)	(6)	(77)	(314)
(Loss) gain on interest rate derivative contract	65	(138)	—	—	(73)
Other income	38	6	64	30	138
Total other (expense) income	33	(77)	142	49	147
Income before income tax provision	5,556	9,352	8,644	9,328	32,880
Income tax provision	(2,305)	(4,166)	(3,364)	(3,999)	(13,834)
Net income	3,251	5,186	5,280	5,329	19,046
Net income per share — basic	$ 0.09	$ 0.15	$ 0.15	$ 0.15	$ 0.54
Net income per share — diluted	$ 0.09	$ 0.14	$ 0.15	$ 0.15	$ 0.53
Weighted average shares used in computing net income per share:					
Basic	34,678	34,917	35,155	35,392	35,046
Diluted	35,657	35,773	36,277	36,492	36,050

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Selected quarterly financial information follows for the year ended December 31, 2010:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenue:					
Business services	$52,565	$56,399	$ 61,087	$ 67,094	$ 237,145
Implementation and other	1,912	2,153	2,056	2,272	8,393
Total revenue	54,477	58,552	63,143	69,366	245,538
Expenses:					
Direct operating costs	23,519	24,101	24,543	24,419	96,582
Selling and marketing	12,060	12,693	13,233	14,689	52,675
Research and development	4,074	4,824	4,645	4,905	18,448
General and administrative	11,677	11,403	10,390	9,649	43,119
Depreciation and amortization	2,420	2,657	2,869	3,171	11,117
Total expenses	53,750	55,678	55,680	56,833	221,941
Operating income	727	2,874	7,463	12,533	23,597
Other income (expense):					
Interest income	78	66	75	90	309
Interest expense	(217)	(118)	(102)	(316)	(753)
(Loss) gain on interest rate derivative contract	(60)	(304)	(111)	276	(199)
Other income	30	33	33	50	146
Total other (expense) income	(169)	(323)	(105)	100	(497)
Income before income tax provision	558	2,551	7,358	12,633	23,100
Income tax provision	(281)	(1,253)	(3,532)	(5,330)	(10,396)
Net income	277	1,298	3,826	7,303	12,704
Net income per share — basic	$ 0.01	$ 0.04	$ 0.11	$ 0.21	$ 0.37
Net income per share — diluted	$ 0.01	$ 0.04	$ 0.11	$ 0.21	$ 0.36
Weighted average shares used in computing net income per share:					
Basic	34,014	34,106	34,174	34,419	34,181
Diluted	35,201	35,019	35,156	35,278	35,204

Exhibit 10.18

SECOND AMENDMENT TO LEASE

Definitions:

Effective Date:	November 7, 2011.
Landlord:	President and Fellows of Harvard College, a Massachusetts educational and charitable corporation.
Tenant:	athenahealth, Inc., a Delaware corporation.
Lease:	Lease between Landlord, as landlord, and Tenant, as tenant, dated as of November 8, 2004, as amended by First Amendment to Lease dated as of May 16, 2011 (the "First Amendment").
Existing Premises:	The Original Premises and the First Amendment Expansion Premises.
Original Premises:	All of Building 97 and portions of the second and third floors of Building 311, containing approximately 133,616 rentable square feet of space in total, all as more particularly described in the Lease.
First Amendment Expansion Premises:	A portion of the third floor of Building 311 containing approximately 18,000 rentable square feet of space, as more particularly described in the First Amendment.
Expansion Premises:	The Alzheimer's Expansion Premises and the A&G Expansion Premises.
Alzheimer's Expansion Premises:	A portion of the fourth floor of Building 311 containing approximately 12,000 rentable square feet of space, as more particularly described on Exhibit A attached hereto.
A&G Expansion Premises:	A portion of the fourth floor of Building 311 containing approximately 24,347 rentable square feet of space, as more particularly described on Exhibit B attached hereto.
Alzheimer's Expansion Premises Commencement Date:	May 1, 2012, provided that Tenant has delivered to Landlord certificates of insurance evidencing that Tenant is carrying all coverages required to be carried by Tenant with respect to the Alzheimer's Expansion Premises pursuant to Section 5.1.20 of the Lease, or such later date as Landlord shall deliver the Alzheimer's Expansion Premises to Tenant.

A&G Expansion Premises Commencement Date:	September 1, 2012, provided that Tenant has delivered to Landlord certificates of insurance evidencing that Tenant is carrying all coverages required to be carried by Tenant with respect to the A&G Expansion Premises pursuant to Section 5.1.20 of the Lease, or such later date as Landlord shall deliver the Alzheimer's Expansion Premises to Tenant.
Alzheimer's Expansion Premises Rent Commencement Date:	The Alzheimer's Expansion Premises Commencement Date.
A&G Expansion Premises Rent Commencement Date:	The A&G Expansion Premises Rent Commencement Date.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Lease.

BACKGROUND:

Tenant desires to expand the Existing Premises, and Landlord has agreed to such expansion upon the terms and conditions set forth below, and provided certain other revisions are made to the Lease, all as set forth more particularly below.

Landlord and Tenant hereby agree as follows:

1. **Expansion Premises**: Landlord will deliver the Alzheimer's Expansion Premises to Tenant as of the Alzheimer's Expansion Premises Commencement Date and Landlord will deliver the A&G Expansion Premises to Tenant as of the A&G Expansion Premises Commencement Date, and Tenant agrees to accept the Expansion Premises in their AS-IS condition, and Landlord shall have no obligation to do any work or make any installation or alterations of any kind to the Expansion Premises, except as follow:

(a) Prior to the Alzheimer's Expansion Premises Commencement Date and the A&G Expansion Premises Commencement Date, as applicable, the Landlord, at its sole cost and expense, will, with respect to the Alzheimer's Expansion Premises and the A&G Expansion Premises, respectively, remove (i) all workstations, chairs and office furniture from the premises, and (ii) remove all racks electronic equipment (other than lighting and in-wall cabling) and supplementary cooling systems and equipment from "LAN" and data rooms.

(b) All mechanical, electrical, plumbing and ventilation systems (except for supplementary cooling systems and equipment in "LAN" and data rooms) serving the Alzheimer's Expansion Premises and the A&G Expansion Premises, which, under the terms of the Lease, are to be kept and maintained by Landlord, shall be delivered in good working order on the Alzheimer's Expansion Premises Commencement Date and the A&G Expansion Premises Commencement Date, as applicable.

(c) In the event that the Alzheimer's Expansion Premises or the A&G Expansion Premises are vacant in advance of the Alzheimer's Expansion Premises Commencement Date or the A&G Expansion Premises Commencement Date, as applicable, Landlord shall grant Tenant early access to such premises for purposes of planning, design, demolition and site preparation provided that all such activity will be in accordance with all relevant terms and provisions of the Expansion Premises Work Letter attached hereto as Exhibit C and all other terms and conditions of the Lease.

(d) If the Alzheimer's Expansion Premises Commencement Date has not occurred on or prior to September 1, 2012, then Tenant shall have the right to terminate this Lease with respect to the Alzheimer's Expansion Premises by delivering written notice of termination to Landlord on or prior to September 15, 2012. If the A&G Expansion Premises Commencement Date has not occurred on or prior to January 1, 2013, then Tenant shall have the right to terminate this Lease with respect to the A&G Expansion Premises by delivering written notice of termination to Landlord on or prior to January 15, 2012. As an inducement to Tenant entering this Amendment, Landlord agrees that: (A) if the Alzheimer's Expansion Premises Commencement Date does not occur on or prior to May 1, 2012, then Landlord shall pay to Tenant one-sixth (1/6) of any amounts actually received by Landlord as "holdover rent" (excluding any amounts received by Landlord in respect of any indemnification claims) from the tenant pursuant to that certain Lease by and between Landlord, as landlord, and Alzheimer's Disease and Related Disorders Association, Massachusetts Chapter, Inc., as tenant, dated as of November 29, 2004; and (B) if the A&G Expansion Premises Commencement Date does not occur on or prior to September 1, 2012, then Landlord shall pay to Tenant one-sixth (1/6) of any amounts actually received by Landlord as "holdover rent" (excluding any amounts received by Landlord in respect of any indemnification claims) from the tenant pursuant to that certain Lease by and between Landlord, as landlord, and Allen & Gerritson, Inc., as tenant, dated as of July 22, 2003.

2. **Amended Definitions**:

(a) As of the Alzheimer's Expansion Premises Commencement Date the following terms wherever they appear in the Lease shall have the following meanings:

Premises: All references to the Premises shall mean the Existing Premises and the Alzheimer's Expansion Premises. All references to Premises after the expiration or termination of the Lease Term with respect to a portion of the Premises shall mean the portion of the Premises for which the Lease Term has not expired or terminated.

Initial Lease Term: With respect to the Original Premises, the period commencing on the Lease Commencement Date and ending on the Lease Expiration Date, unless sooner terminated as provided in this Lease. With respect to the First Amendment Expansion Premises, the period commencing on the First Amendment Expansion Premises Commencement Date and ending on the First Amendment Expansion Premises Lease Expiration Date. With respect to the Alzheimer's Expansion Premises, the period commencing on the Alzheimer's Expansion Premises Commencement Date and ending on the Alzheimer's Premises Lease Expiration Date.

Alzheimer's Expansion Premises Lease Expiration Date: June 30, 2016, or such earlier or later date upon which the Lease Term with respect to the Alzheimer's Expansion Premises may expire, be terminated or extended pursuant to any of the conditions or other provisions of this Lease or pursuant to law.

Lease Year: With respect to the Original Premises, the period running from the Lease Commencement Date to the first anniversary of the Rent Commencement Date and thereafter a Lease Year shall mean the successive year-long period commencing on an anniversary of the Rent Commencement Date. With respect to the First Amendment Expansion Premises and the Alzheimer's Expansion Premises, the period running from the First Amendment Expansion Premises Commencement Date and the Alzheimer's Expansion Premises Commencement Date, as applicable, to June 30, 2012 and thereafter a Lease Year shall mean the successive year-long period commencing on July 1st. Rent shall be prorated for any Lease Year that is shorter or longer than one year.

Tenant's Share of Parking Spaces: 425 unreserved parking spaces located in the parking areas of the Complex, to be used in accordance with Section 2.7.

Basic Rent: Original Premises Basic Rent, First Amendment Expansion Premises Basic Rent and Alzheimer's Expansion Premises Basic Rent.

Original Premises Basic Rent:

Period	Annual Basic Rent	Monthly Basic Rent
7/01/05 - 6/30/06	$ 2,924,854.24	$ 243,737.85
7/01/06 - 6/30/07	$ 3,025,066.24	$ 252,088.85
7/01/07 - 6/30/08	$ 3,125,278.24	$ 260,439.85
7/01/08 - 6/30/09	$ 3,225,490.24	$ 268,790.85
7/01/09 - 6/30/10	$ 3,325,702.24	$ 277,141.85
7/01/10 - 6/30/11	$ 3,459,318.24	$ 288,276.52
7/01/11 - 6/30/12	$ 3,592,934.24	$ 299,411.19
7/01/12 - 6/30/13	$ 3,726,550.24	$ 310,545.85
7/01/13 - 6/30/14	$ 3,860,166.24	$ 321,680.52
7/01/14 - 6/30/15	$ 3,993,782.24	$ 332,815.19

First Amendment Expansion Premises Basic Rent:

Period	Annual Basic Rent	Monthly Basic Rent
10/01/11 - 6/30/12	$ 484,020.00	$ 40,335.00
7/01/12 - 6/30/13	$ 502,020.00	$ 41,835.00
7/01/13 - 6/30/14	$ 520,020.00	$ 43,335.00
7/01/14 - 6/30/15	$ 538,020.00	$ 44,835.00

Alzheimer's Expansion Premises Basic Rent:

Period	Annual Basic Rent	Monthly Basic Rent
05/01/12 - 6/30/12	$53,780.00	$26,890.00
07/01/12 - 6/30/13	$334,680.00	$27,890.00
07/01/13 - 6/30/14	$346,680.00	$28,890.00
07/01/14- 6/30/15	$358,680.00	$29,890.00
07/01/15 - 6/30/16	$370,680.00	$30,890.00

Tenant's Operating Cost Share: With respect to Original Premises, 100% of Building Operating Costs for Building 97 and 29.84% of Building Operating Costs for Building 311 (the percentage calculated by dividing the rentable square feet of the Building 311 Premises (112,616) by the rentable square feet of the Building 311 (377,340) and multiplying the resulting quotient by 100). With respect to the First Amendment Expansion Premises, 4.77% (the percentage calculated by dividing the rentable square feet of the First Amendment Expansion Premises (18,000) by the rentable square feet of the Building 311 (377,340) and multiplying the resulting quotient by 100). With respect to the Alzheimer's Expansion Premises, 3.18% (the percentage calculated by dividing the rentable square feet of the First Amendment Expansion Premises (12,000) by the rentable square feet of the Building 311 (377,340) and multiplying the resulting quotient by 100).

Tenant's Tax Share: With respect to the Existing Premises, the Tenant's Tax Share shall mean 17.98% (the percentage calculated by dividing the rentable square feet of the Existing Premises (133,616) by the rentable square feet of the Complex (743,176) and multiplying the resulting quotient by 100). With respect to the First Amendment Expansion Premises, the Tenant's Tax Share shall mean 2.42% (the percentage calculated by dividing the rentable square feet of the Expansion Premises (18,000) by the rentable square feet of the Complex (743,176) and multiplying the resulting quotient by 100). With respect to the Alzheimer's Expansion Premises, the Tenant's Tax Share shall mean 1.61% (the percentage calculated by dividing the rentable square feet of the Expansion Premises (12,000) by the rentable square feet of the Complex (743,176) and multiplying the resulting quotient by 100).

(b) As of the A&G Expansion Premises Commencement Date the following terms wherever they appear in the Lease shall have the following meanings:

Premises: All references to the Premises shall mean the Existing Premises, the Alzheimer's Expansion Premises and the A&G Expansion Premises. All references to Premises after the expiration or termination of the Lease Term with respect to a portion of the Premises shall mean the portion of the Premises for which the Lease Term has not expired or terminated.

Initial Lease Term: With respect to the Original Premises, the period commencing on the Lease Commencement Date and ending on the Lease Expiration Date, unless sooner terminated as provided in this Lease. With respect to the First Amendment Expansion Premises, the period commencing on the First Amendment Expansion Premises

Commencement Date and ending on the First Amendment Expansion Premises Lease Expiration Date. With respect to the Alzheimer's Expansion Premises, the period commencing on the Alzheimer's Expansion Premises Commencement Date and ending on the Alzheimer's Expansion Premises Lease Expiration Date. With respect to the A&G Expansion Premises, the period commencing on the A&G Expansion Premises Commencement Date and ending on the A&G Expansion Premises Lease Expiration Date.

A&G Expansion Premises Lease Expiration Date: June 30, 2016, or such earlier or later date upon which the Lease Term with respect to the A&G Expansion Premises may expire, be terminated or extended pursuant to any of the conditions or other provisions of this Lease or pursuant to law.

Lease Year: With respect to the Original Premises, the period running from the Lease Commencement Date to the first anniversary of the Rent Commencement Date and thereafter a Lease Year shall mean the successive year-long period commencing on an anniversary of the Rent Commencement Date. With respect to the First Amendment Expansion Premises and the Alzheimer's Expansion Premises, the period running from the First Amendment Expansion Premises Commencement Date or the Alzheimer's Expansion Premises Commencement Date, as applicable, to June 30, 2012 and thereafter a Lease Year shall mean the successive year-long period commencing on July 1st. With respect to the A&G Expansion Premises, the period running from the A&G Expansion Premises Commencement Date to June 30, 2013 and thereafter a Lease Year shall mean the successive year-long period commencing on July 1st. Rent shall be prorated for any Lease Year that is shorter or longer than one year.

Tenant's Share of Parking Spaces: 489 unreserved parking spaces located in the parking areas of the Complex, to be used in accordance with Section 2.7.

Basic Rent: Existing Premises Basic Rent, First Amendment Expansion Premises Basic Rent, the Alzheimer's Expansion Premises Basic Rent and the A&G Expansion Premises Basic Rent.

Existing Premises Basic Rent: See above.

First Amendment Expansion Premises Basic Rent: See above.

Alzheimer's Expansion Premises Basic Rent: See above.

A&G Expansion Premises Basic Rent.

Period	Annual Basic Rent	Monthly Basic Rent
09/01/12 - 6/30/13	$565,864.86	$56,586.49
07/01/13 - 6/30/14	$703,384.83	$58,615.40
07/01/14- 6/30/15	$727,731.83	$60,644.32
07/01/15 - 6/30/16	$752,078.83	$62,673.24

Tenant's Operating Cost Share: With respect to Original Premises, 100% of Building Operating Costs for Building 97 and 29.84% of Building Operating Costs for Building 311 (the percentage calculated by dividing the rentable square feet of the Building 311 Premises (112,616) by the rentable square feet of the Building 311 (377,340) and multiplying the resulting quotient by 100). With respect to the First Amendment Expansion Premises, 4.77% (the percentage calculated by dividing the rentable square feet of the First Amendment Expansion Premises (18,000) by the rentable square feet of the Building 311 (377,340) and multiplying the resulting quotient by 100). With respect to the Alzheimer's Expansion Premises, 3.18% (the percentage calculated by dividing the rentable square feet of the First Amendment Expansion Premises (12,000) by the rentable square feet of the Building 311 (377,340) and multiplying the resulting quotient by 100). With respect to the A&G Expansion Premises, 6.48% (the percentage calculated by dividing the rentable square feet of the First Amendment Expansion Premises (24,347) by the rentable square feet of the Building 311 (377,340) and multiplying the resulting quotient by 100).

Tenant's Tax Share: With respect to the Existing Premises, the Tenant's Tax Share shall mean 17.98% (the percentage calculated by dividing the rentable square feet of the Existing Premises (133,616) by the rentable square feet of the Complex (743,176) and multiplying the resulting quotient by 100). With respect to the First Amendment Expansion Premises, the Tenant's Tax Share shall mean 2.42% (the percentage calculated by dividing the rentable square feet of the Expansion Premises (18,000) by the rentable square feet of the Complex (743,176) and multiplying the resulting quotient by 100). With respect to the Alzheimer's Expansion Premises, the Tenant's Tax Share shall mean 1.61% (the percentage calculated by dividing the rentable square feet of the Expansion Premises (12,000) by the rentable square feet of the Complex (743,176) and multiplying the resulting quotient by 100). With respect to the Alzheimer's Expansion Premises, the Tenant's Tax Share shall mean 3.28% (the percentage calculated by dividing the rentable square feet of the Expansion Premises (24,347) by the rentable square feet of the Complex (743,176) and multiplying the resulting quotient by 100).

3. **Tenant's Work** Tenant shall perform the Tenant's Work (as defined in the Expansion Premises Work Letter) in accordance with the terms and provisions of the Expansion Premises Work Letter attached hereto as Exhibit C.

4. **Broker**. Tenant and Landlord each warrants and represents to the other that it has not dealt with any broker other than Beal and Company, Inc. and Avison Young, New England (the "**Brokers**") in connection with this Amendment. In the event of any brokerage claims against Landlord (excluding claims made by the Brokers) or Tenant predicated on prior dealings by the other party hereto with the maker of such claims, the party alleged to have had such prior dealings shall defend, indemnify, and hold the other party harmless against all loss and expense incurred by it (including reasonable attorneys' fees). Landlord shall be responsible for any brokerage commission payable to the Brokers pursuant to a separate agreement.

5. **Ratification**. Except as expressly modified by this Amendment, the Lease shall remain in full force and effect, and as further modified by this Amendment, is expressly ratified and confirmed by the parties hereto.

6. **Miscellaneous**. This Amendment (i) contains the entire agreement with respect to the subject matter hereof; (ii) may not be modified or terminated, nor may any provision hereof be waived, orally or in any manner other than by an agreement in writing signed by the parties hereto or their respective successors, and assigns; (iii) shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts; (iv) may be executed in multiple counterparts, each of which individually shall be deemed an original and all of which together shall constitute a single original agreement; and (v) shall inure to the benefit of, and be binding upon, the parties hereto, and their successors, and assigns, subject to the provisions of the Lease regarding assignment and subletting. Any termination of the Lease shall also terminate and render void all rights of Tenant under this Amendment. Tenant's rights under this Amendment may not be severed from the Lease or separately sold, separately assigned, or separately transferred.

[Remainder of Page Left Intentionally Blank]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment under seal effective as of the Effective Date.

PRESIDENT AND FELLOWS
OF HARVARD COLLEGE

By: /s/ Lisa Hogarty
Name: Lisa Hogarty
Title: Vice President for Campus Services

By: /s/ Carolee Hill
Name: Carolee Hill
Title: Managing Director, University and Commercial Real Estate

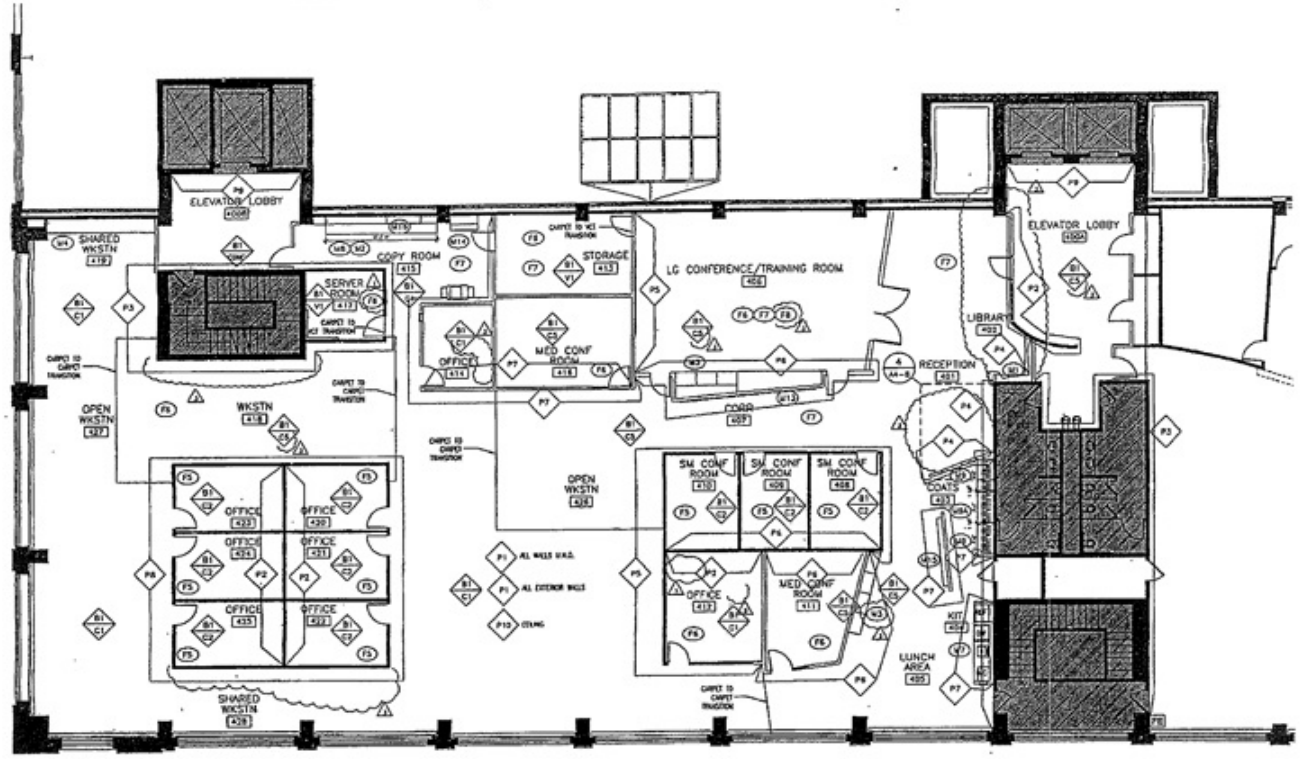
ATHENAHEALTH, INC.

By: /s/ Timothy M. Adams
Name: Timothy M. Adams
Title: Chief Financial Officer

EXHIBIT A

ALZHEIMER'S EXPANSION PREMISES

BLDG 311, 4TH FL00R, 12,000 RSF



FINISHES AND MILLWORK PLAN
SCALE: 1/8" = 1'-0"

EXHIBIT B

A&G EXPANSION PREMISES

BLDG 311, 4TH FLOOR, 24,347 RSF

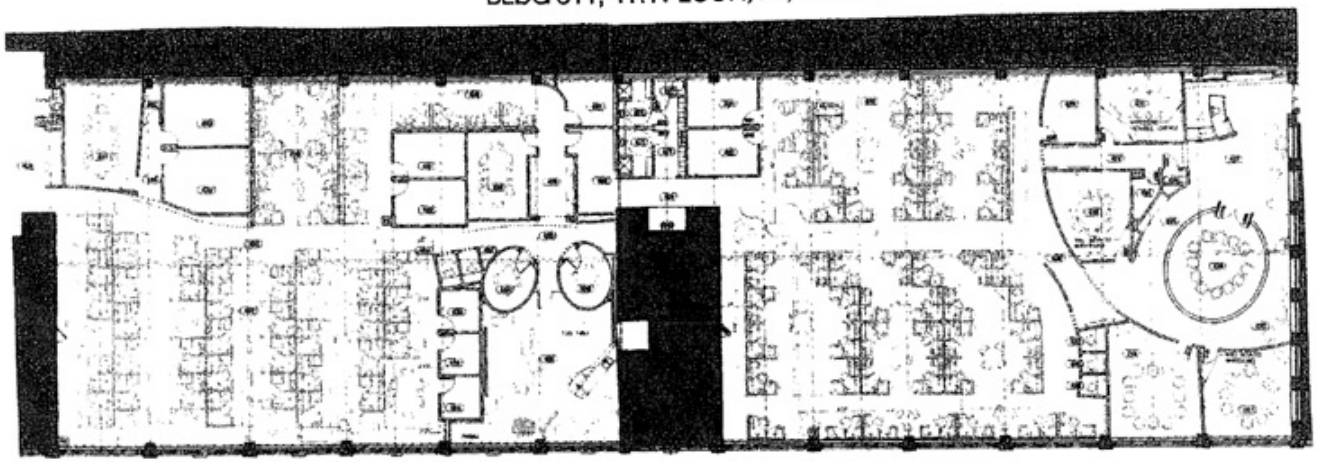


EXHIBIT C

EXPANSION PREMISES WORK LETTER

LANDLORD:	President and Fellows of Harvard College
TENANT:	athenahealth, Inc.

1. Definitions. Capitalized terms used in this Exhibit and not otherwise defined shall have the meanings set forth in the Lease dated as of November 8, 2004, as amended by the First Amendment to Lease dated as of May 16, 2011, as amended by the Second Amendment to Lease dated as of October , 2011. The following capitalized terms shall have the meanings set forth below:

Architect: A licensed architect to be approved by Landlord, such approval not to be unreasonably withheld or delayed.

Building Permit: With respect to each of the Alzheimer's Expansion Premises and the A&G Expansion Premises, a building permit issued by the Town of Watertown on the basis of Tenant's Plans.

Certificate of Occupancy: With respect to each of the Alzheimer's Expansion Premises and the A&G Expansion Premises, a certificate of occupancy (temporary or permanent) for the Premises issued by the Town of Watertown.

Construction Guidelines: The architectural, engineering, and construction guidelines for the Complex attached hereto as Schedule B.

Construction Budget: With respect to each of the Alzheimer's Expansion Premises and the A&G Expansion Premises, a written budget for the applicable Tenant's Work that contains a detailed line by line breakdown of all hard and soft costs (limited to the Construction Contract, architectural, engineering fees, and all requisite consulting fees, construction manager's expenses, permit fees, payment, performance, and lien bond premiums, material testing, equipment start-up and building commissioning costs, utility company billings, and all other costs needed to construct the applicable Tenant's Work).

Design/Development Plans: With respect to each of the Alzheimer's Expansion Premises and the A&G Expansion Premises, a set of design/development progress plans prepared by the Architect for the applicable Tenant's Work.

Engineers: Collectively, all acoustical, structural, heating, ventilation, air conditioning, plumbing, fire protection, civil and electrical engineers licensed in The Commonwealth of Massachusetts retained by Tenant, Architect or General Contractor to design, supervise or perform the Tenant's Work. All Engineers shall be approved by Landlord, such approval not to be unreasonably withheld or delayed.

Final Construction Plans: With respect to each of the Alzheimer's Expansion Premises and the A&G Expansion Premises, a full set of final construction plans for the applicable Tenant's Work prepared by the Architect and identified in the applicable Landlord Approval Letter.

General Contractor: A licensed general contractor to be approved by Landlord, such approval not to be unreasonably withheld or delayed.

Landlord Approval Letter: With respect to each of the Alzheimer's Expansion Premises and the A&G Expansion Premises, a letter agreement between Landlord and Tenant approving the applicable Final Construction Plans in the form attached hereto as Schedule A.

Landlord's Contribution: With respect to the Alzheimer's Expansion Premises, an allowance of up to a maximum amount of $180,000.00, and with respect to the A&G Expansion Premises, an allowance of up to a maximum amount of $365,205.00, in each case that Landlord shall provide to Tenant for reimbursement of costs in connection with the applicable Tenant's Work, subject to the terms and conditions set forth in Section 4 below.

Lien Wavers: Partial lien waivers and subordinations of lien from all vendors, contractors and sub-contractors supplying labor or materials in connection with Tenant's Work, as specified in M.G.L. Chapter 254, Section 32.

Outside Work Completion Date: With respect to the Alzheimer's Expansion Premises, August 31, 2012, and with respect to the A&G Expansion Premises, December 31, 2012.

Payment Conditions: See Section 4.3.

Alzheimer's Expansion Premises: A portion of the fourth floor of Building 311 containing approximately 12,000 rentable square feet of space, as more particularly described in Exhibit A to the Second Amendment to Lease.

A&G Expansion Premises: A portion of the fourth floor of Building 311 containing approximately 24,347 rentable square feet of space, as more particularly described in Exhibit B to the Second Amendment to Lease.

Substantial Completion Certificate: With respect to each of the Alzheimer's Expansion Premises and the A&G Expansion Premises, a certificate signed by the Architect on an AIA form stating that the applicable Tenant's Work has been substantially completed in accordance with the applicable Final Construction Plans, with the exception of minor items of incomplete work and so-called "punchlist" items.

Substantial Completion Date: With respect to each of the Alzheimer's Expansion Premises and the A&G Expansion Premises, the later of the (i) the date that Tenant delivers the applicable Substantial Completion Certificate to Landlord; or (ii) the date the applicable Certificate of Occupancy is issued.

Tenant's Permitted Expenses: See Section 4.1.

Tenant's Plans: Collectively, with respect to each of the Alzheimer's Expansion Premises and the A&G Expansion Premises, the applicable Design/Development Plans and the applicable Final Construction Plans. The term "Tenant's Plans" shall also include any revisions to those plans approved by Landlord in accordance with Section 2.1 below.

Tenant's Work: The leasehold improvement work necessary to prepare the Alzheimer's Expansion Premises and the A&G Expansion Premises, as applicable, for occupancy by Tenant, and described in applicable Tenant's Plans.

2. Tenant's Plans. Tenant will submit to Landlord for Landlord's written approval by no later than 15 days after the Alzheimer's Expansion Premises Commencement Date and the A&G Expansion Premises Commencement Date, as applicable, a set of the applicable Design/Development Plans. Tenant shall submit to Landlord for Landlord's written approval, the applicable Final Construction Plans by no later than 20 days after the date of Landlord's approval of the applicable Design/Development Plans. Landlord shall either approve or disapprove of such Design/Development Plans and such Final Construction Plans, respectively, within 10 Business Days of Landlord's receipt of such plans, and, in the event of any disapproval of such plans, Landlord will provide Tenant with a summary of the material reasons for disapproval, and a detailed description of the changes that will be required before Landlord will reconsider approving the same. If necessary, Tenant shall promptly cause such the applicable Design/Development Plans or the applicable Final Construction Plans to be modified to address with Landlord's reasonable requests. Landlord's approval of the applicable Final Construction Plans shall not be unreasonably withheld, or delayed, provided that they are consistent with the Construction Guidelines (to the extent they are applicable to the Building) and the applicable Design Development Plans approved by Landlord. At such time as the applicable Final Construction Plans are completed and approved by Landlord, Landlord and Tenant shall each execute and deliver a Landlord Approval Letter, reciting such approval and definitively identifying the applicable Final Construction Plans so approved, and a copy of such letter shall be appended to each counterpart of the Lease. Each Landlord Approval Letter shall also list any elements of the applicable Tenant's Work that Tenant shall remove at the end of the Lease Term in accordance with Section 5.1.4. of the Lease. After execution of a Landlord Approval Letter, any material changes to the applicable Tenant's Plans shall require Landlord's prior written approval, such approval to follow the procedure outlined in this Section above. Upon issuance of the applicable Landlord Approval Letter, Tenant shall promptly obtain the applicable Building Permit.

Any approval granted by Landlord under this Section 2 shall be granted solely for the benefit of Landlord, and neither Tenant nor any third party shall have the right to rely upon Landlord's approval of any of the applicable Tenant's Plans for any other purpose whatsoever. Without limiting the foregoing, Tenant shall be responsible for all elements of the design of Tenant's Work (including, without limitation, the compliance of the Tenant's Work and Tenant's Plans with Legal Requirements, functionality of design, the structural integrity of the design, the configuration and demising of the Alzheimer's Expansion Premises and the A&G Expansion Premises, as applicable, and the placement of Tenant's furniture, appliances and equipment), and Landlord's approval of the applicable Tenant's Plans shall in no event relieve Tenant of the responsibility therefor.

3. Tenant's Work

3.1 Commencement of Tenant's Work. Tenant shall not commence construction of the applicable Tenant's Work until (i) the applicable Building Permit is issued, and a copy provided to Landlord; and (ii) Tenant has delivered to Landlord certificates of insurance evidencing that the General Contractor is carrying all coverages required to be carried by contractors employed by Tenant under the Lease.

3.2 Performance and Quality of the Tenant's Work. Except for Landlord's Contribution, all of Tenant's Work shall be performed by Tenant at Tenant's sole cost and expense. All construction work conducted in connection with the Tenant's Work shall be done in a good and workmanlike manner with new, first-class materials, in a lien-free manner, in accordance with the applicable Final Construction Plans, and in compliance with all Legal Requirements, the Construction Guidelines (to the extent they are applicable to the Building), and all requirements of public authorities and insurance bodies related to, or arising out of the performance of, such construction work. Tenant shall diligently pursue construction of Tenant's Work. Landlord shall have the right to inspect such construction work at any time, provided that Landlord shall use reasonable efforts to give Tenant reasonable prior notice of any such inspections.

3.3 Completion of the Tenant's Work/Default. Tenant shall cause the applicable Substantial Completion Certificate to be issued to Landlord on or before the applicable Outside Work Completion Date. Tenant shall obtain the applicable Certificate of Occupancy at the earliest date possible following completion of the applicable Tenant's Work, and shall then occupy the Alzheimer's Expansion Premises and the A&G Expansion Premises, as applicable, for the conduct of the Permitted Use within 15 days of the applicable Substantial Completion Date. Any (i) failure by Tenant to cause the applicable Tenant's Work to be substantially completed by the applicable Outside Work Completion Date, or (ii) breach of any other of the terms and conditions of this Work Letter that is not cured within 10 days after written notice to Tenant thereof, shall in each case be deemed to constitute an Event of Default under the Lease entitling Landlord to exercise Landlord's remedies under the Lease, including the right to draw down on the Letter of Credit to cure any such Event of Default, and the rights set forth in Section 4.5 below. Upon Landlord's written request to Tenant, such request to be delivered no earlier than 30 days after the applicable Substantial Completion Date, Tenant shall, at Tenant's sole expense, promptly deliver to Landlord complete sets of as-built plans for the applicable Tenant Work prepared by the Architect. Such plans shall be in so-called "computer assisted design" or "CAD" format if requested by Landlord.

4. Landlord's Contribution.

4.1 Permitted Expenses. As an inducement to Tenant's entering into the Second Amendment to Lease, and subject to the terms and conditions set forth in this Work Letter, Landlord shall provide to Tenant Landlord's Contribution. Landlord's Contribution shall be used by Tenant to reimburse Tenant for the following costs paid or incurred by Tenant in connection with Tenant's Work: building permit, general construction costs; data/telecommunications cabling and related equipment costs; architectural and engineering services, including space plans, as-built plans, and mechanical, electrical and plumbing work; construction management fees; and relocation expenses (collectively, "**Tenant's Permitted Expenses**").

4.2 Periodic Payments. Upon commencement of the construction of the applicable Tenant's Work, Tenant shall have the right to obtain periodic payments (but not more than once a month) for the applicable Tenant's Work performed and Tenant's Permitted Expenses incurred of up to 75% of the applicable Landlord's Contribution (collectively, the "**Periodic Payments**") by submitting to Landlord (i) a statement (hereinafter "**Tenant's Statement**"), including

requisitions from Tenant's contractors with retainage of not less than 10% of the amount of such requisition, third party invoices, and other documentation reasonably requested by Landlord showing in reasonable detail the cost of all such Tenant's Permitted Expenses and (ii) Lien Waivers with respect to work set forth on Tenant's Statement. For the Periodic Payments, Landlord shall pay to Tenant within 30 days of Landlord's receipt of Tenant's Statement, the lesser of (i) Tenant's Permitted Expenses as detailed on Tenant's Statement, or (ii) 75% of the applicable Landlord's Contribution minus amounts previously paid to Tenant.

4.3 Final Payment. Tenant shall have the right to obtain payment of the unpaid balance of the applicable Landlord's Contribution at any time after the Final Payment Conditions are satisfied but prior to the date that is 90 days after the issuance of the applicable permanent Certificate of Occupancy (the "**Final Payment**"), by submitting to Landlord (x) Tenant's Statement in accordance with Section 4.2 above; and (y) final Lien Waivers, conditioned only upon payment of the final amount listed on the Lien Waiver, relating to items, services and work performed in connection with all phases and portions of the applicable Tenant's Work. The "**Final Payment Conditions**" shall mean (i) Landlord has received the applicable Substantial Completion Certificate, and a copy of the applicable final Certificate of Occupancy; and (ii) Tenant is occupying the Alzheimer's Expansion Premises and the A&G Expansion Premises, as applicable, for the Permitted Use. For each Final Payment, Landlord shall pay to Tenant within 30 days of the date of Landlord's receipt of the applicable Tenant's Statement and the applicable Lien Waivers in compliance with the terms of this Section 4, the lesser of (i) an amount equal to Tenant's Permitted Expenses as detailed on the applicable Tenant's Statement, or (ii) an amount equal to the unpaid balance of the applicable Landlord's Contribution.

4.4 Additional Conditions. Landlord shall have the right, at Tenant's expense, upon reasonable advance notice to Tenant, to inspect Tenant's books and records relating to Tenant's Statement in order to verify the amount thereof. Notwithstanding anything to the contrary contained in the Lease: (i) Landlord shall have no obligation to pay any portion of Landlord's Contribution requested under any Tenant's Statement that is submitted to Landlord after the applicable Outside Work Completion Date; (ii) Landlord's obligation to pay any portion of Landlord's Contribution shall be conditioned upon Tenant being in compliance with the terms of this Lease, and there existing no Event of Default under the Lease at the time that Landlord would be required to make such payment; and (iii) Landlord shall have no obligation to advance any funds or pay any amounts on account of the applicable Tenant's Work in excess of Landlord's Contribution.

4.5 Landlord's Contribution/Event of Default. If an Event of Default occurs (i) Landlord's obligation to provide Landlord's Contribution shall, at Landlord's option, be deemed void as of the date of the occurrence of such Event of Default, and (ii) if Landlord exercises it right to terminate this Lease in accordance with the provisions of Section 6.1.1 of the Lease, Landlord can recover from Tenant, in addition to the other amounts set forth in Section 6, the unamortized balance of Landlord's Contribution paid to Tenant (calculated on a level direct reduction basis over the Initial Lease Term). The provisions of this Section 4.5 shall be in addition to all other rights and remedies of Landlord in the event of a default of Tenant under the Lease. Tenant shall not be entitled to any credit or reduction in the amount recoverable by Landlord pursuant to this Section 4.5 based upon amounts collected by Landlord from reletting the Alzheimer's Expansion Premises and the A&G Expansion Premises, as applicable, after an Event of Default.

5. Notice. Any notice required or permitted to be given pursuant to the provisions of this Work Letter shall be given in accordance with the provisions set forth in the Lease.

SCHEDULE A
Landlord Approval Letter

, 2011

athenahealth, Inc.
300 North Beacon Street
Watertown, Massachusetts 02472

Re: **311 Arsenal Street, The Arsenal on the Charles**
Watertown, Massachusetts

Ladies and Gentlemen:

Reference is made to that certain Lease, dated as of November 8, 2004, between President and Fellows of Harvard College, as Landlord, and athenahealth, Inc., as Tenant, as amended by a First Amendment to Lease dated as of May 16, 2011, as further amended by a Second Amendment to Lease (the "Amendment") dated as of October , 2011 (as so amended, the "Lease"). In accordance with Section 2.2 of the Expansion Premises Work Letter attached to the Amendment, this is to confirm that the Final Construction Plans referred to in such Work Letter are those drawings prepared by [ ] and described as follows:

DATE	TITLE	#PAGES

Landlord confirms that it has approved the Final Construction Plans.

The following elements of Tenant's Work shall be removed by Tenant at the expiration of the Lease Term in accordance with Section 5.1.4 of the Lease, unless Landlord elects otherwise as set forth in Section 5.1.4:

[LIST ALL ELEMENTS TO BE REMOVED]

If the foregoing is in accordance with your understanding, would you kindly execute this letter in the space provided below and return the same to us, whereupon it will become a binding agreement between us.

Very truly yours,

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

By: _____

Accepted and Agreed:
ATHENAHEALTH, INC.

By: _____
Name: _____
Title: _____

SCHEDULE B
Construction Guidelines

The Arsenal
ON THE CHARLES

CONSTRUCTION GUIDELINES

311 ARSENAL STREET
BUILDING #311
WATERTOWN, MA, 02472

Beal. | 3 Kingsbury Avenue | Watertown, MA 02472 | p: 617-923-4500 | f: 617-923-4501 | www.taotc.com

TABLE OF CONTENTS

I. INTRODUCTION

The Arsenal on the Charles staff looks forward to working with the Tenant and Contractor as fellow members of your "Project Team." We want to ensure that the construction is completed smoothly and results in maximum tenant satisfaction.

All construction at The Arsenal On The Charles must be done in compliance with the Building's Standard Specifications as well as Landlord requirements as detailed in this text. All work must be performed in compliance with all applicable Federal, State and Local Laws, Regulations, Building Codes and Zoning Ordinances. In the event of a conflict, current Laws and Regulations supersede these Specifications.

Approval must be received **IN WRITING** from the Beal Company Management Office prior to the commencement of any Tenant alteration/construction work.

CONTRACTOR
Project Manager
Phone
Fax
Cell
Email
Pager
Project Supervisor
Phone
Fax
Cell
Email
Pager

BUILDING OWNER
Primary Contact
Phone
Fax
Cell
Email
Pager
Secondary Contact
Phone
Fax
Cell
Email
Pager

II. PRE-CONSTRUCTION

A pre-construction meeting must be held with the Tenant, Architect, Engineer Consultant, General Contractor, ("Contractor") and Landlord's Agent. The term "Contractor" for the purposes of this manual shall include all sub-contractors, lower tiered sub-contractors and or vendors as may be applicable. As the project progresses, correspondence and questions should be addressed to:

Beal & Co., Inc. (Landlord's Agent)
Attn.: Property Manager
3 Kingsbury Avenue, Watertown, MA 02472

The Tenant must designate a representative (Tenant Representative) must inform Beal Company Management in writing of the individual's name. The Tenant's Representative must be able to make decisions on behalf of Tenant regarding clarification of documents and must be authorized to accept financial responsibility on the Tenant's behalf.

A. Plans & CAD Files

1. The Tenant shall submit preliminary construction drawings of the proposed work to the Management Office for approval. These plans will be reviewed by the Building Staff for safety, impact on neighboring Tenants, and consistency with the Building's operational strategies.
2. All plans shall be dated and shall identify the Architect's name, address and telephone number, Tenant's name. All submissions to be on sheets 30" x 42" or 24" x 36", drawn to a minimum scale of 1/8". Tenant should maintain a file of copies of all transmissions to the Management Office.
3. Prior to any construction, three (3) sets of wet-stamped drawings must be signed as "approved" by the Management Office, Chief Engineer, and Tenant Representative. This indicates agreement on the plans to be used for construction.
4. At the completion of the project, AUTOCAD format must be submitted to the Beal Management office.
5. Please refer to Appendix D for a detailed discussion regarding Submittal of Drawings.

B. Permits

1. Have all required permits posted and submit a copy to the Beal & Company management office prior to proceeding with work. No work shall begin until permits have been received by the Beal Management Office.
2. Tenant shall be responsible for payment of all filing fees and for all controlled inspections, permits, and all other code mandated testing/inspections which shall be performed by the Locality, Building Code consultant or Building's independent consultants, if applicable.

C. Insurance

1. A Certificate of Insurance must be delivered to the Beal Management office before proceeding with work. Also the following names as the additionally insured: *President and Fellows of Harvard College.* Specifications for Certificates of Insurance, Certificates are in Appendix A.

D. Contractors and Subcontractors

1. All work shall be performed by a licensed Contractor. All contractors and sub-contractors are subject to the approval of the Management Office.
2. A complete list of contractors, subcontractors and tenant representatives involved with the project should be submitted to the Beal Management Office.
3. Tenant and Contractor shall make every effort to avoid labor disputes and shall indemnify the Landlord and Landlord's Agent against any such disputes.
4. The Contractor and all his sub-contractors shall furnish labor that will work in harmony with all other elements of labor employed or to be employed in the work and on the premises whether labor is employed by Contractor or its sub-contractors, Landlord, Landlord's tenants or any separate contractors and that all construction and/or alterations will be performed in such a manner as to avoid materially interfering with Landlord's and its tenants' operation of the premises. Contractor shall stop construction or other activity immediately upon notification by Management Office that continuing such construction or activity would or is creating interference.

E. Construction Schedule

1. A copy of the construction schedule indicating the proposed start and completion dates and proposed hours of construction should be delivered to the Beal Management Office. Prior to and during the construction phase, Contractor shall provide weekly work schedules detailing daily work hours. Regular building business hours are from 8:00 a.m. to 5:00 p.m. (Monday — Friday). It will be the responsibility of the Contractor to notify the Beal Management Office if the schedule changes. The construction schedule should be based on the work to be performed as indicated on the Tenant's Approved Construction Documents.

III. CONSTRUCTION PERIOD

A. Supervision

1. A foreman in the employment of the Contractor is required to be on the job site at all times when any work is in progress. The foreman shall make himself known to the Beal Management Office, and introduce any replacement, be they temporary or permanent.
2. All after-hours work by Contractors must be scheduled 24 hours in advance with the Beal Management Office.

B. Security

1. Tenant shall contact the Beal Management Office to obtain temporary Building Access Cards for use by the contractor.
2. Beal Management Office must have access to work areas at all times.

C. Fire Safety

1. All necessary fire protection (i.e. fire extinguishers and sand buckets) must be in place throughout the construction process. These fire protection requirements shall be provided by the Contractor at Tenant's expense, and as directed by the Beal Management Office, and as required by local code.
2. Properly equipped and trained fire watch personnel shall be posted whenever any type of welding, cutting or burning is taking place, and as required by Federal, State or Local codes.
3. Specific approval must be obtained from the Beal Management Office any time work may produce smoke, heat, flame, or heavy dust, or at any time when work could potentially cause damage to sprinkler pipes or heads. This includes use of acetylene torches and demolition. This written approval is required in order to coordinate the proper deactivating and reactivating of the appropriate portions of the Building's sprinkler and Fire Alarm System. The deactivating and reactivating shall only be done by Building personnel. Contractor shall request approval from the Beal Management Office in writing at least 24 hours prior to such work.
4. Beal Management Office must be notified of all and any hazardous or flammable materials being utilized accompanied with the proper MSDS sheets. All flammable materials (thinners, adhesives, oily rags, gasoline, etc.) must be stored in an approved NFPA (Code 30) fire cabinet at the end of each workday. Cabinets are to be provided by the Contractor. Acetylene oxygen and propane tanks must be removed from the premises at the end of each workday.
5. Any additional reasonable fire protection requested by the Beal Management Office shall be provided by the Contractor.
6. The Contractor will protect the Public, Tenant, and Building property by installing all necessary signs, dust protection and all other safety measures required for this work. These reasonable requirements shall include, but not be limited to, ensuring the core Class E system (pull stations and common-area smoke detectors) remain in full operation throughout construction.

D. Cleaning/Building Protection

1. In order to minimize any adverse impact on tenanted areas in the Building that may be affected by demolition or construction, dust or dirt shall be cleaned by the Contractor's labor to the satisfaction of the Beal Management Office. Such spaces include floors, walls and ceilings of multi-tenant corridors, and elevator lobbies and cabs. Cleanup work is the full responsibility of the Contractor.
2. Dust, which accumulates from work done during normal business hours, shall be cleaned continuously, and that which results from after-hours work shall be cleaned after work is completed.
3. If no work is planned for the following morning, additional follow-up cleaning of public areas is required no later than 8:00 a.m. the following day to clean dust which may have settled during the night. This requirement includes weekends.

4. The floors must be kept in broom clean condition. The job site is to be maintained in a clean condition. Trash shall be removed at the end of each day and should be carted away from the Building by Contractor at Tenant's expense. Debris is not to be left in piles in the Tenant space/work area, public areas such as corridors or freight lobbies, or in the main freight corridor. Containers must be promptly returned to the work area and not left in common areas. Debris, containers, incoming material, tools and the like may not be stored anywhere outside the work area.

5. Damage to elevator or common areas will be charged directly to the contractor. Protect floors and walls with poly sheets or plywood on the floor. Protection of walls, floors, elevators, ceilings, doors, etc. is the contractor responsibility. Any damages will be the contractor's responsibility for repairs.

6. The Contractor is to use rubber wheeled carts in removing debris and trash from Tenant's space. Under no circumstances shall metal-wheeled carts be allowed. All doors are to be protected with paper and cardboard.

7. Any damage done to the corridors must be repaired by Contractor at the Tenant's expense upon completion of the project. Corridor specifications can be obtained from the Management Office.

8. Appropriate precautions must be taken by Contractor to protect filters on the A/C units from clogging when construction dust is heavy. Contractors should notify the Management Office in advance when such construction activities seem likely. As determined by the Chief Engineer, filters will be replaced at the Tenant's expense.

9. Restrooms shall not be used for cleaning of construction or painting tools or equipment. Contractor will be back charged for an extra cleaning.

10. Cutting or trenching of the floor slab is prohibited without prior written consent. Coring is allowed ONLY with advance permission.

11. Any practices that are odor-causing or particulate-generating are prohibited during business hours.

12. All materials, tools and debris are required to enter and leave the building by the loading dock ONLY. Use of the front entrance doors is strictly prohibited.

E. Noise and Vibrations

1. Consideration must be given to minimizing inconvenience to other tenants adjacent to the area under construction concerning noise, dust and orders.

2. Any construction work causing excessive noise and/or vibrations, such as coring, column chipping, setting of anchors, etc. shall not be performed during normal business hours.

3. Any work that disrupts nearby Tenants must cease immediately upon request of the Management Office and rescheduled for completion on an after-hours basis.

F. Telephone and Electrical Rooms

The following rules shall apply to anyone other than building personnel wanting access to telephone or electric rooms for tenant work:

1. A key must be signed out at the security desk by the person/company performing the work. This sign-out shall require the person's name, company name, name of the tenant which the work is being performed for and the technicians' manager's name and phone number.

2. Keys may be signed out between the hours of 7:00 a.m. to 5:00 p.m., Monday through Friday. All keys must be returned no later than 5:00 p.m. Work outside of these hours will need to be scheduled no less than forty-eight hours in advance.

3. No key may leave the premises. Any time the working Contractor leaves the floor of work, the room(s) is to be secured.

4. The Contractor(s) performing the work shall be held liable for keeping the area clean. No parts or equipment are to be stored in these rooms. Rooms are to be cleaned before the Contractor leaves for the day. No building equipment will be used by the Contractor for the task of cleaning these rooms.

G. Elevators

1. Construction and demolition materials move must be scheduled between 6:00 a.m. and 8:00 a.m. or after 6:00 p.m. weekdays, or on weekends, unless otherwise approved by Beal Management.

2. The Beal Management Office requires 24 hours notice for the use of an elevator for extended deliveries or the moving of large piece of equipment.

3. Beal Management Office must be given 24 hours prior notice for a weekday and notice by noon on Thursday for a weekend reservation of an elevator.

4. The Contractor must clean the elevator and all areas affected by the work after each use.

5. Elevator use during normal business hours is for routine deliveries only. No exclusive use of these elevators can be granted during this time. Arrangements for after-hours elevator service should be made with the Management Office.

H. Demolition and Construction Debris

1. All demolition, debris removal, and transporting of large quantities of construction materials must be done before or after regular Building business hours. Arrangements for after-hours freight elevator service should be made with the Beal Management Office at least 24 hours in advance, or on Thursday for weekend work.

2. All construction debris must be removed from the Building within twenty-four hours.

3. All dumpsters are to be placed either at the West or East ends of the building only, or in an area designated by Beal Management, and covered at the end of each day.

4. No construction debris or materials are to be stored or transported through the main lobby/lobbies at any time.

I. Storage

1. Contractors are not to store any equipment in building attic stock, electrical closets, phone closets, mechanical rooms, or freight halls. Storage must be coordinated with either the Beal Management Office or the General Contractor and shall in most cases be confined to the construction site.
2. Anything uncrated at the loading dock, must be removed at the end of the day. The loading dock must be kept clean and contractor will be billed for removal of crates, etc.

J. Inspection

1. Landlord and/or Beal Management Office has the right to inspect construction operations at any time.

IV. MECHANICAL/DESIGN SPECIFICATIONS

General

The following items, addressed in the paragraphs below, are among those that must conform to the Building Standard Specifications.

- HVAC systems
- Electrical installations
- Fire alarm
- Plumbing
- Telephone hookups
- Walls
- Entryway doors, hardware and locks, electric strike,
- Signage
- Windows, solar screens
- Fireproofing
- Security & card access systems

Shutdown

No shutdown of water, electric, drainage, sprinkler, or HVAC, other than designated working areas, is to be preformed without notice and approval of the building maintenance. A minimum of forty-eight (48) hours notice must be prearranged with the Beal & Company management office. This work may be required to be preformed on an overtime basis.

A. HVAC

NOTE: Whether or not any mechanical work is part of the project, the tenant/contractor shall be responsible for any change in the mechanical HVAC delivery system resulting from any alteration of the space configuration. This shall include: insulating of supply ductwork, relocation of sensors, thermostats, ducts or diffusers, calibration of any temperature controls and air balancing.

1. The standard air distribution system is provided by HVAC units. This system is operated and controlled by computer settings via Johnson Controls Software.
2. Any unused ductwork in tenant's premises shall be removed. Prior to removal, Building Management must be notified.

3. HVAC equipment is not to be installed over any wall. Walls are not to be built under any VAV box. If a VAV box is to be installed above a drywall ceiling, access panel must be of sufficient size to allow removal of the motor unit if necessary.

4. All systems must be restored to good working order and tested by Contractor, at its expense (to include thermostats and modulating controls).

5. Air Balancing tests on new or modified ductwork are to be conducted by Landlord's contractor only at the expense of the Contractor. A report is to be provided to Beal Management.

6. The only authorized HVAC Control Contractor that may work in the building is Johnson Controls. No other HVAC Control contractor may be used. In addition, only Johnson Controls may update any changes to the HVAC Control System on the Johnson Controls computer. All costs incurred by Johnson Controls are at the sole expense of the contractor.

B. Electrical Installations

1. Wiring within all closets, or any exposed interior area shall be in EMT from any enclosure to a minimum of 6" above ceiling.

2. The use of E.M.T or M.C. cable is acceptable. No other wiring methods are acceptable without written consent by Landlord.

3. All lighting fixtures must be energy efficient. Approved plans indicating these fixtures must be submitted to the Beal Management Office prior to ordering the fixtures.

4. No back-to-back electrical outlets are allowed in adjacent offices. A minimum of one foot of space between electrical outlets is required.

5. No sub-panels or piggyback panels are allowed in Building electric closets.

6. Temporary lights must be provided at all elevator lobbies, fire exits, and equipment rooms on a 24- hour basis. All temporary lights and wiring must be removed at the completion of the project.

7. All power, including existing, must be routed back to the tenant electrical closet, as applicable, and any penetration into the electrical closet must be fire-stopped.

8. All unused electrical wiring/conduit/cabling (including telephone) within tenant's premises shall be removed back to the source of connection. Prior to removal, the building management must be notified in order to approve the extent of removal and to coordinate the disconnection of related electrical work. This work is to be made part of demolition work.

9. Tenant electrical panels, if applicable, are required to be in the Tenant space outside of the Building electrical closets.

10. All panels must be labeled.

11. The electrician is responsible for final inspection and sign-off by the Electrical Inspector regardless of length of time it takes to schedule inspection date. It is the responsibility of the electrical contractor to ensure that an inspection is done. This shall include any Fire Alarm System work performed.

12. Light fixtures are to be secured to structure by jack chain only. No tie wires of any kind shall be allowed.

13. No shared neutrals or multi-wire branch circuits shall be allowed on any new or retrofit work.

14. Cutting or trenching of the floor slab is prohibited. Coring is allowed ONLY with Owner's permission in advance.

C. Plumbing

1. Access doors must be installed at every wet column for accessibility to the valves.

2. All piping to be abandoned as a result of Tenant's Improvements within Tenant's premises shall be removed back to the source of connection by Tenant at Tenant's expense. Prior to removal, Building Management must be notified in order to approve the extent of removal and to coordinate the disconnection of related plumbing work. This work is to be made part of demolition work.

3. Any new installation or replacement of a tenant hot water heater shall require that an automatic leak detector and water shutoff be included as an integral part of the hot water installation.

D. Fire Alarm System

The Contractor or Electrician shall furnish electrical drawings to Management Office prior to the commencement of construction. These drawings shall include Fire Alarm System (which should be a separate drawing), Riser Diagram and Sequence of Events. The Contractor is responsible for coordinating all work with Management Office. The Building's Fire Panel contractor, Siemen's, shall make the final tie-in of all fire devices to the panel on the respective floor(s) at the Contractor's expense. It is the responsibility of the Contractor to ensure that any devices installed be Building Standard and further, that any strobes/horns moved remain on the same circuit to ensure that the system remains in sync. In the event that the moving of horns/strobes causes the system to be out of sync, it will be the responsibility of the Contractor, as its sole expense, to correct the problem.

A work permit must be obtained prior to any work on the fire alarm system from the Town of Watertown. The engineer who designed the mechanical systems shall sign and seal the riser plan and certify, in writing, the completed system to the Town of Watertown prior to the final sign off of the work permit and/or issuance of the Certificate of Occupancy. Also, the electrical contractor shall complete an A433R Form which certifies the correct installation of the fire alarm devices. The signed and sealed plan and A433R Form must be given to the Beal Management Office to complete the fire alarm filing and sign-off.

NOTE: The building is equipped with beam detectors in all atrium spaces that will activate the fire alarm system when crossed.

Any fire alarm testing should be scheduled for off-hours. Fire alarm must be disconnected during the following;

A.) For all sprinkler work.

B.) For all welding, exothermic or work requiring a torch.

C.) Whenever dust will be generated in the vicinity of a smoke detector.

D.) Any work on the fire alarm panel or device powered by the fire alarm panel.

E.) The day prior to any final inspection, that included fire alarm work, as well as the day of the final inspection that involves the Watertown fire department.

E. Telephone Hookups

1. All telephone and data cables are to be made of approved fire resistant wire (such as Teflon coated), or concealed in EMT when running through a return air plenum in a manner acceptable to the Town of Watertown. No Tenant Equipment is allowed in Building Mechanical Equipment Rooms or telephone closets. Tenant Equipment is allowed only in the Tenant's space, Permits are required for all wiring, including data and telephone.

F. Walls

1. Office partition studs must extend to the underside of the slab above. All demising partitions and corridor walls must be extended completely; drywall and studs must extend to the underside of the slab above, per Town of Watertown codes.

G. Entry Way Doors, Hardware, etc.

1. **Entry Way Doors** — All Tenant Entry Doors on the public corridors of multi-tenant floors are to:

- Match existing doors of other tenants on the respective floors
- Any deviation from building standard must be approved in writing by Beal Management Office.

2. **Hardware and Locks** — Contractors shall utilize locksmith approved by the Landlord. Tenant shall be responsible for keys used within their space in conjunction with the building master keying system. All locks for entrances, closets, exits, labs, computer rooms and offices must also be in conjunction with the building master keying system.

3. **Electric Strike** — All electrical strikes must be tied in to the Building's Fire Alarm System by the Building's Fire Alarm System Contractor. All strikes must fail safe on fire alarm.

4. **Signage** — Building Standard Signage (frame, size and color) must be used. The sign graphics, if applicable, must be submitted to the Management Office four (4) weeks prior to the Tenant's move- in date or date when signage is needed, whichever is earlier, for approval.

H. Windows/Solar Screens

1. Blinds and shades are only permitted on the perimeter exterior walls of the building. This means only windows that are facing the outside. The specific types used in the building is ThermoViel (dense basket weave).

I. Fireproofing

1. Fireproofing must comply with all Federal, State and Local building codes. In the event any structural steel is exposed as a result of construction, thorough fireproofing shall be required as part of Contractor's scope of work.

J. Sprinklers

1. Contractor shall provide three (3) spare sprinkler heads to the Beal Management Office. All sprinkler work will require a Fire Alarm System shutdown before draining. As soon as system is drained, Building's Sprinkler Contractor will put the building back on line except for the working zones. At the end of the day, Building's Sprinkler Contractor will refill the system and reset the Fire Alarm Panel, no later than 5:00 pm.
2. It is the Sprinkler Contractor's responsibility to secure the fire pump when refilling the system. No drain-down of the system or refill of the system shall take place unless the Building's Sprinkler Contractor is physically present on-site.

K. Roofing

1. Beal Management Office is to be notified when access is required on the roof.
2. All roof penetrations must get approval by Beal Management and must conform to warranty requirements (Firestone Roofing System).

APPENDIX A
CERTIFICATE OF INSURANCE REQUIREMENTS

I. The Contractor shall furnish to the Owner a Certificate(s) of Insurance providing the following minimum insurance coverage. Original Certificate(s) of Insurance must be provided before any contractor commences contract duties or contract duties will not be allowed to commence:

a. Commercial General Liability: Combined single limit — $2,000,000 per occurrence and annual aggregate per location. Such insurance shall be broad form and include, but not be limited to, contractual liability, independent contractor's liability, products and completed operations liability, and personal injury liability. A combination of primary and excess policies may be utilized. Policies shall be primary and noncontributory.

b. Worker's Compensation — Statutory Limits of the Commonwealth of Massachusetts.

c. Employer's Liability: With minimum liability limits of $1,000,000 bodily injury by accident each accident; $1,000,000 bodily injury by disease policy limit; $1,000,000 per accident.

d. Commercial Automobile Liability: Combined Single Limit — $1,000,000 per accident, Such insurance shall cover injury (or death) and property damage arising out of the ownership, maintenance or use of any private passenger or commercial vehicles and of any other equipment required to be licensed for road use.

e. Property Insurance: All-risk, replacement cost property insurance to protect against loss of owned or rented equipment and tools brought onto and/or used on any Property by the Contractor.

II. Policies described in Section 1.a. and 1.d. above shall include the following as additional insured, including their officers, directors and employees. A GL-2010 Endorsement shall be utilized for the policy(ies) described in Section 1.a. above. Please note that the spelling of these parties must be exactly correct or the insurance is not valid and Contract Duties will not be allowed to commence.

1. President and Fellows of Harvard College
2. Beal and Company, Inc.

NOTE: Specific insurance requirements available upon request from Beal Management.

III. Contractor waives any and all rights of subrogation against the parties identified above in Paragraph 2 as additional insured's.

IV. All policies will be written by companies licensed to do business in the State of Massachusetts.

V. Contractor shall furnish to the Owner Certificate(s) of Insurance for the contractor and all sub-contractors, sub-sub-contractors, etc. evidencing the above coverage. Original Certificate(s) of Insurance must be provided before Contractor commences Contract Duties or Contract Duties shall not be allowed to commence.

VI. Certificate(s) of Insurance relating to policies under this Agreement shall contain the following words verbatim:

"It is agreed that this insurance will not be canceled, not renewed or the limits of coverage in any way reduced without at least thirty (30) days advance written notice [ten (10) days for non-payment of premium] sent by certified mail, return receipt requested to: Beal and Company, Inc., 3 Kingsbury Avenue, Watertown, MA 02472"

APPENDIX B
ELEVATOR INFORMATION

1. Elevator Entrance: Located on the West and East ends of the building.

2. Hours of Operation:

A) Business Hours Normal elevator operating hours for general pickups and deliveries are as follows: Monday through Friday 8:00 a.m. — 5:00 p.m.

B) After Hours Large moves and extended deliveries must be scheduled before 8:00 a.m. or after 6:00 p.m. weekdays, or on weekends.

Elevator reservations must be made at least one day in advance with the Beal Management Office. Elevator usage is first come, first served; early reservations are encouraged.

3. Dimensions/Capacity

Capacity: 2,500 lbs.

Dimensions:

West Elevator (elevator #1)
8’ Deep
5’ 3” Wide
7’ High
Door is 4’ Wide

East Elevator (elevator #8)
5’ 5” Deep
6’ 3.5” Wide
7’ High
Door is 3’ 5.5” Wide

APPENDIX C
FIREPROOFING REQUIREMENTS

1. Installation shall comply with the following standards:

a. Dry Density: 13 lbs/ft 3 minimum, 17 lbs/ft 3 average.

b. Compressive Strength: 500 lbs/ft 2 for 10% deflection, ASTM E761.

c. Impact Bond: No cracking or spalling with 60 lb. bag and 4’ height, ASTM E760.

d. Deflection: No cracking, spalling, delamination or other defect or failure, ASTM E759.

e. Corrosion Resistance: No corrosion hen tested according to ASTM E937.

f. Bond Strength: 200 lbs/ft 2 minimum, ASTM E738.

g. Air Erosion Resistance: 0.25 grams ft2 maximum weight.

2. All structural elements (columns, beams, etc.) must have an application to afford three hours of fire resistance. Floors and decking are to be two hours.

3. Application of fireproofing must adhere to the following guidelines:

a. Mask and protect adjacent work which could be damaged by over spray or fallout.

b. Clean substrates of all substances which might be incompatible or inhibit bonding.

c. Verify that surface members to receive sprayed fireproofing are compatible with fireproofing materials and bonding requirements.

d. Power clean unpainted members which will receive sprayed fireproofing to remove incompatible materials which could affect bond when scraping, bruising, or washing will not remove the materials.

e. Assure that installation of clips, hangers, supports, sleeves, shaft wall runners and other items required to penetrate the sprayed fireproofing work is complete.

f. Verify that ducts, piping, equipment, or other items would interfere with application of fireproofing are not positioned until sprayed fireproofing work is completed.

APPENDIX D
SUBMITTAL OF DRAWINGS

The Tenant shall submit design and construction drawings of the proposed work to Beal. Management Office for approval Beal Management Office will review for impact on neighboring Tenants, consistency with the Building's operational strategies, and compliance with the design guidelines and construction specifications.

Plans

1. The recommended first submittal shall be a space study indicating the proposed office layout and all required exits. The study shall include egress calculations for tenant space, indicate population loads, exit unit requirements, travel distances, and number of required exits. At this time the Tenant should also be prepared to review any special project-related requirements, such as structural reinforcement or supplemental mechanical, electrical and plumbing systems.

2. The required second submittal of plans shall be a complete set of construction documents, consisting of demolition, architectural, mechanical, electrical, life safety, structural, sprinkler with hydraulic calculations and plumbing, as applicable. These drawings should indicate all special requirements, i.e., supplemental HVAC, floor loading, etc. The drawings must include a cover sheet detailing general terms and conditions, along with relevant specifications and regulations. This set must also include all necessary detail drawings. A title sheet should include the site plan including the building address, block, lot and zone. All drawings should predominantly display the tenant and floor involved. All additional project manuals and/or associated specifications will be presented at this time.

3. All plans shall be dated and shall identify the Tenant Architect's name, address and telephone number, Tenant's name and suite number. All submissions to be bound and collated on sheets 30" x 42" or 24" x 36", drawn to a minimum scale of 1/8". Tenant shall provide copies of all construction-related transmittals to the Beal Management Office.

4. Prior to any construction three (3) sets of Building Approved drawings and construction documents must be stamped and signed by the General Manager, Chief Engineer and Tenant Representative. This indicates agreement on the plans to be used for construction. Each party shall retain one set of drawings for record purposes.

5. Please note that plans and drawings must not be folded.

6. The Tenant Representative is responsible for submitting immediate written notification to the Management Office of all changes or deviations in the construction from that shown on the approved construction set of drawings.

Review of Construction Documents

1. Beal's Management Office on-site staff will have all documents reviewed for compliance with current regulations and building compatibility. This review will not absolve the Tenant's Architects, engineers and contractors from their sole responsibility to design and build in accordance with all applicable regulations in a manner consistent with the Tenants requirements and in an acceptable tradesmen-like quality.

2. The first submittal consisting of an architectural conceptual design will be reviewed and comments returned to the Tenants representative in (7) seven working days. This submittal should include a space study indicating the proposed office layout and all required exits.

3. The second submittal consisting of a complete set of construction documents as outlined under PLANS, will be reviewed and comments returned to the Tenants representative in (10) ten working days.

4. The third submittal consisting of a complete set of construction documents, amended to incorporate all of the required modifications, from the preceding reviews. These documents may now be released to building approved general contractors and sub-contractors for bidding purposes. Beal Management Office will not allow construction to commence until such time all relevant code or lease related issues raised by this project are resolved. A complete set of approved construction documents must be now turned over to the Beal Management Office.

5. The filings for permits are to be presented to the Building signed and sealed by all required parties accompanied by two sets of all required signed and sealed project documents. The Building will keep a copy of all applications and the second set of signed and sealed project documents for its records.

6. Tenant shall be responsible for payment of all filing fees and for all controlled inspections, permits, and other code mandated testing/inspections, which will be performed by the Locality, Building Code consultant or Building's independent consultants.

7. Copies of all approved applications, project documents and permits must be delivered to the Beal Management Office upon their receipt and prior to the commencement of work.

8. During the course of the Project, the Building Representative will receive, in a timely manner, copies of all approved submittals, including shop drawings for all materials, equipment and systems.

9. The Building will receive two (2) sets of installation, operation and maintenance instructions for all architectural, mechanical, electrical, plumbing, fire and life safety systems and their components. These should be produced in the form of Project Installation, Operation & Maintenance Manuals.

10. Upon completion of construction, two (2) sets of as-built drawings must be submitted to the Beal Management Office, indicating all changes and deviations from the previously approved construction set of drawings. This set shall be dated and marked "As-Built, for Record" and shall be signed by both the Tenant and the Tenant's Architect. This set will include all "As-Built" shop drawings from the respective mechanical, electrical, life safety trades and with any CAD files in AUTOCAD format.

Construction Schedule

1. Prior to any construction, the contractor should prepare a work schedule to be approved by the Beal Management Office and the Tenant. The schedule should include work start date and anticipated completion date; the schedule will be based on the work to be performed as indicated on the Tenant's approved construction documents. In addition, the schedule shall clearly indicate the anticipated dates for all work, which can be reasonably expected to impact or disrupt the normal functioning of the Building or other Tenants.

APPENDIX E
RULES AND REGULATIONS

The following information outlines the rules and regulations for contracted service personnel that shall be followed by all Service Contractors working at The Arsenal on the Charles. No deviation or exception will be permitted without the expressed, written approval of Agent. Questions or comments should be directed to the Beal Management Office; 617-923-4500.

1. Prior to any activities, Service Contractor shall agree to abide by and conform to these R&R's and shall acknowledge such agreement for itself and all others performing any portion of the Work by or through the Service Contractor, including subcontractors and material suppliers by executing these R&R's where shown.

2. If Service Contractor is hired directly by Tenant, Tenant will be primarily responsible for Tenant's Service Contractor and its subcontractors, workmen, suppliers, etc. Any action detrimental to the Property is the sole responsibility of the Tenant. Service Contractor shall be responsible for enforcing these R&R's with all its subcontractors, workmen suppliers, etc.

3. Plans and specifications setting forth all architectural, mechanical, electrical and other aspects of the Work to be performed by the Service Contractor shall be submitted and approved by Agent in writing prior to commencement of Work. Upon completion, Service Contractor shall deliver to Agent "As-built" drawings of electrical, mechanical and any deviations from original approved plans. Electrical panels must be labeled.

4. All costs, including but not limited to, costs for permits, fees and licenses necessary for the execution of Contract Duties shall be the sole and exclusive obligation of the Service Contractor or its subcontractors.

5. Service Contractor shall be responsible for its actions on site as well as those of its subcontractors. Service Contractor shall promptly repair any damage to the Property caused by Service Contractor or its subcontractors or material suppliers at no cost to Owner or Agent. Care shall be taken to protect ceilings, walls, doors, and carpets of public areas when moving construction materials, trash, etc.

6. Service Contractor is responsible for the security in the work area and at its expense shall provide its own watchman as required. All risk of loss to all property of the Service Contractor and its subcontractors, including but not limited to, tools and materials located on the Property, shall be the sole and exclusive responsibility of Service Contractor and its subcontractors, and Agent shall have no responsibility.

7. Service Contractor shall give all notices and comply with laws, ordinances, rules, regulations and orders of any public authority bearing on the performance of the Contract Duties.

8. All workers shall maintain their actions while at the Property in a professional manner to include but not limited to:

a. No abusive language.

b. No alcohol or drugs.

c. No smoking or drinking in public areas.

d. No use of radios in areas that are accessible to the public or from which the public may hear them being played.

Agent reserves the right to add other restrictions to those listed above as may be deemed necessary to provide for the comfort and safety of the Tenants.

9. No storage of supplies or trash will be allowed on the Property at any time. All work and adjacent areas are to be kept clean and free of trash, debris and non-useful materials at all times at Service Contractor's cost. Failure to do so will result in Agent providing this service and charging the Service Contractor accordingly.

10 No storage of flammable substances will be allowed at the Property unless approved by Agent and in accordance with approved building codes and regulations.

11. No interviewing of job applicants or subcontractors will be allowed on-site without prior written approval by Agent and prior scheduled appointment.

12. There will be absolutely no use of Tenant and/or Building property to include, but not limited to, telephones, dollies, ladders, photocopiers, vacuums, etc. unless specifically approved in writing by Agent prior to its use.

13. All deliveries will be scheduled with Agent. A prior notification of at least 24 hours but not more than seven days is required. Scheduling of elevator time through Agent for deliveries and trash removal will be the responsibility of Service Contractor.

14. Service Contractor shall coordinate with and provide prior written notice to Agent when access to occupied space is required. Service Contractor shall give notice according to the following schedule.

a. Less than one hour required in the space; provide 24-hour advance notice.

b. Less than one day required in the space; provide two days advance notice.

c. More than one day required in the space; provide three days advance notice.

15. All Service Contractors must sign in with the security guard. An Agent's representative must be contacted that the Contractor is on-site.

16. Service Contractor shall not be permitted any identifying signage or advertising unless approved by Agent in writing.

17. Service Contractor shall turn off lights and all other equipment at night after completion of work for the day.

18. Building hours are 8:00 a.m. to 5:00 p.m. Monday through Friday. Work beyond these hours is subject to approval by Agent.

19. The Service Contractor may only use the freight elevator to transport equipment, materials or supplies. Agent reserves the right to restrict times Service Contractor may use freight elevator.

20. Service Contractor shall arrange for pre-inspection of Tenant suites prior to construction to identify items subject to potential claims for breakage, theft, abuse, damage, etc. Service Contractor's General Superintendent and Subcontractor Foreman, Tenant Representative, and Agent's Property Manager and Building Engineer shall attend pre-inspections.

21. Service Contractor shall not interfere with other Tenants in such a manner as to cause unnecessary inconvenience or disruption. Work of this nature must be scheduled before 8:00 a.m. and after 6:00 p.m. Work that disrupts nearby Tenants must cease immediately upon request of the Agent and rescheduled for completion on an after-hour basis.

22. Use of odor causing or particulate generating practices during normal business hours is prohibited.

23. Agent shall have the right from time to time as may be required, to inspect or perform work within the property. Agent shall have the right to suspend Service Contractor's Work in the property if such work, in the opinion of the Agent, is presenting or may present *a* danger to life, safety, or property, or in an emergency situation.

It is expressly understood and agreed that this Agreement shall be for the direct benefit of the Owner. Accordingly, Owner shall be granted the right to pursue in its own name any rights or remedies against Service Contractor including without limitation, claims for damages granted to other parties under the Agreement.

APPENDIX F
ARCHITECTURAL AND ENGINEERING GUIDELINES

This memorandum will summarize the basic requirements of the sixth edition of the Massachusetts State Building Code (MSBC) applicable to the building at 311 Arsenal Street, Watertown. It includes the conditions imposed by MSBC Appeal Board in its decision to permit the roof trusses of the building to remain without fire rating.

Basic Building Code Requirements

The basic requirement of the MSBC applicable to this building are summarized in Table No. 1. The occupancy and building characteristic that are the basis for those requirements are identified at the beginning of that table. Any deviation from those characteristics including changes of occupancy must be made in compliance with the building code and the intent of the variance which was granted with respect to the roof assembly.

Conditions on the Variance

Two sets of conditions have been imposed on the design and construction of the building in order to justify the variance to permit the roof trusses and deck to be unrated. These are in addition to the standard features of the building required by the building code based on its occupancy and physical characteristic. Those requirements are summarized in Table No. 1.

First, in the presentation of technical arguments for the variance, it was represented that the following fire protection features would be provided in the building:

1. One connection to the site water mains which are supplied from the Watertown municipal water system.
2. A fire pump to boost system pressures to required levels.
3. A standby power supply for the fire pump.
4. A system of combined standpipe risers to supply sprinkler systems of each floor as well as hose connections within exit stairs.
5. Three sprinkler systems per floor with each arranged to be supplied from two separate standpipes.
6. Complete supervision of all operation characteristics and components of the sprinkler and standpipe systems.
7. Complete coverage of all levels of the building with automatic smoke detectors.

All of these features have been provided as part of the base building except that tenant sprinkler systems must be arranged to be supplied from two separate standpipes and tenant space fire alarm systems must include complete coverage with an addressable automatic smoke detection system for all floors.

Second, two conditions were imposed on the fourth floor of the building by the Appeal Board in its decision. One condition requires that ceilings, where provide, have a one hour fire rating. This requirement may be applicable to fully enclosed offices, toilet rooms, storage rooms, equipment rooms and similar spaces which are provided with ceilings suspended or framed below the roof trusses. The decision also required that sprinklers be installed both above (in the truss space) and below the ceilings (in the use space), where ceilings are provided.

The requirement for a one hour ceiling may be satisfied by installation of a ceiling assembly which has a one hour “finish rating” by standard Underwritten Laboratories’ test criteria. Such a ceiling will typically require two layers of 5/8 inch Type X gypsum-board appropriately attached to framing above. The ceiling membranes of UL Floor/Ceiling Assembly Design No. L532 or L505 would be appropriate for this purpose. The intended fire rating will only be achieved if the ceiling membrane is provided with connections and support equal to that provided by the floor assembly to which it is attached in the UL Design (ie. Spacing of framing, frequency of fastener, etc.).

Floor Systems

2. Provide 2 hour fire ratings for floor/ceiling assemblies as required for construction Type 1B. (T-602).

3. Provide multiple floor openings arranged as an atrium having features as summarized in Table No. 1. (713.3, Exception 5, 404.0)

Interior Walls and Partitions

4. Provide unrated partitions for enclosure of exit access corridors. (1011.4)

5. Provide one hour rated partitions as tenant-to-tenant separation walls. (T-602).

6. Provide two hour fire enclosures for stairway, elevator and mechanical shafts which connect more than three stories and one hour fire rated enclosures for stairway and mechanical shafts which connect three stories or less. (T-602, 1014.11, 710.3)

7. Provide two hour fire rated enclosures of all rooms, shafts and closets containing equipment and wiring for emergency power generation, distribution and control. (MA Electrical Code, 700-10).

8. Provide one hour fire rated walls with 3/4 hour opening protective around the following specific occupancy areas:

- Trash rooms
- Physical Plant and Maintenance Shops (302.1.1, T-302.1.1)

9. Provide smoke partitions designed to resist the passage of smoke constructed of combustible or non-combustible materials which extend from the floor below to the underside of the floor or roof above around the following specific occupancy areas:

- Storage rooms over 50 sq. ft. in area (302.1.1, T-302.1.1)

10. Provide doors to the areas identified in Item 9 which are self closing or arranged for automatic closing upon detection of smoke. (302.1.1.1)

Exterior Walls and Roof

11. Provide three hour fire ratings for interior and exterior columns supporting more than one floor and two hour fire ratings for columns supporting only one floor or the roof. (T-602).

12. Provide unrated non-bearing exterior wall components for the building walls. (705.2, T-705.2).

13. Utilize unlimited openings in exterior walls. (705.3, T-705.3).

No rating is required for exterior walls of a sprinklered building of use Group B occupancy when the fire separation distance for the wall is greater than 5 feet. Unlimited exterior wall openings are permitted in such a wall when the wall has a fire separation distance of more than 20 feet.

The fire separation distance of the Arsenal Street wall measured to the centerline of Arsenal Street is 48 feet. The fire separation distances of walls not facing immediately adjacent buildings are well in excess of 20 feet.

The physical distance between building 311 and the Harvard Printing Building is approximately 37 feet. A fire separation distance of greater than 15 feet for the Harvard Printing Building permits that budling to have an unrated exterior wall with not more than 70% openings. The remaining 22 feet is considered the fire separation distance for Building 311. That distance allows the unrated exterior wall with essentially 100% openings that are provided on Building 311.

The physical distance between Building 311 and the adjacent parking garage is approximately 55 feet. That physical distance permits a fire separation distance of greater than 30 feet for the parking garage and greater that 20 feet for Building 311. In that situation, the exterior wall of Building 311 is permitted to be unrated and have unlimited exterior openings.

14. Do not provide fire rated exterior walls for exit stair enclosures or for the exterior walls of use spaces adjacent to exterior walls of exit stairs. (Compliance alternative 1014.11.1).

MSBC Section 1014.11.1 requires that either the exterior walls of exit stair enclosures have a one hour rating and have protected openings of that the exterior walls of adjacent use spaces within 10 feet of the stair enclosure be treated in that manner.

As a compliance alternative to strict compliance with the requirement for exterior wall rating and opening protectives wither within or adjacent to an exit stair, close spaced automatic sprinklers will be provided to protect the exterior glass of the stair enclosure. Those sprinklers will help to maintain the integrity of the stairway windows under potential fire exposure.

15. Do not provide opening protection for any exterior wall openings in this fully sprinklered building. (705.3.1).

16. Do not provide a fire rated spandrel panel or wall on this fully sprinklered building. (705.4, Exception 2).

Fire Alarm System

17. Provide a fire alarm system having the basic features required by Section 917 and additional features required by the atrium Section 404.0. (917.4.2).

18. Provide addressable system connected automatic some detectors throughout all levels of the building. (NR/Condition of variance).

Complete coverage of the building with addressable type smoke detectors was offered as part of the justification of the requested variance from fire rating requirements applicable to the roof assembly. Such protection is considered a condition of the variance.

19. Activate the fire alarm system using manual pull stations, water-flow detectors of the sprinkler system and smoke detectors of the atrium exhaust system. (917.7.1).

Means of Egress

20. Provide 2 doors to the corridor system from all rooms or spaces with an occupant load of more than 50 persons or in which the travel distance exceeds 75 feet. (T-1017.2).

21. Install doors which serve rooms with occupants loads of 50 or more persons so as to awing in the direction of egress travel. (1017.4).

22. Where two exit or exit access doors are required from a room or other space, separate the doors by a distance equal to or greater than one quarter of the longest diagonal of the area served. (1006.4.1)

23. Limit dead ends of corridors to not more than 20 feet. (1011.2).

24. Limit the length of a common path of travel in the Use Group B spaces to not more than 100 feet. (1011.2.1).

25. Provide unrated exit access corridor enclosures. (1011.4.).

26. Provide unrated corridor doors. (1011.4.2).

27. Provide corridors with a minimum clear width of 44 inches. (1011.3).

28. Utilize interior exit stairs designed in accordance with MSBC Section 1014.0 as the required exits of the building. (1014.0).

29. Provide sufficient egress capacity for the occupant load of each floor of the building separately. (1009.1, 1009.3).

At the code specified area allowance of 100 square feet per person and with an area of not more than 147,000 square feet, the occupant load of the largest floor of the building will be 1,470 persons. There will be four 44 inch wide exits stairs and seven 48 inch wide exit stairs provided from the upper stories of the building will each have a capacity of 220 persons. The total capacity available from those stairs at an allowance of 0.20 inches per person will be 2,560 persons, well in excess of the project population.

30. Locate exits as required to limit travel distances to less than 150 feet in spaces not separated from the atrium and 250 feet in spaces separated from the atria. (404.7, T-1006.5).

31. Provide exit discharge from exit stairs directly to the outside, through rated passageways, sprinklered lobbies or small vestibules. (1020.0).

Elevators

32. Provide all elevators having a travel of 25 feet or more with characteristics and controls for fire emergency use in accordance with the MA Elevator Code. (MA Elevator Code, 17.39).

33. Provide one elevator which serves all floors of the building with characteristics and controls to permit emergency medical use in accordance with the MA Elevator Code. (MA Elevator Code, 17.40).

Sprinkler Systems

34. Provide a complete automatic suppression system in all portions of the building in accordance with the requirements of Article 9. (904.2, 404.2).

Standpipe

35. Provide fire standpipes in the building with hose connections located in accordance with the criteria of NFPA 14. (914.4, 914.5).

Water Supply

36. Provide water supplies for the sprinkler and standpipe systems using a connection to the municipal water supply. (NFPA 13, 14).

37. Size the supply piping of the combined sprinkler and standpipe water supply system in accordance with the criteria of NFPA 14. (914.3).

38. Provide connections of each sprinkler system to two separate standpipe risers. (NR/Condition of variance).

Emergency Power

39. Provide an emergency generator to provide standby power for the fire alarm system, exit signs, emergency lights, the atria smoke control systems and the fire pump. (917.6, 1023.4,1024.4, 921.5, Condition of variance).

The provisions of standby power for the fire pump was a condition of the variance from the requirements for the fire rating of the roof assembly.

Interior Finish

40. Utilize interior finish as follows:

- Class I interior finish within all exit stairs.
- Class II or better interior finish within all exit access corridors serving only office areas.
- Class III or better interior finish within rooms or spaces of assembly and office areas. (T-803.4).

41. Utilize traditional floor coverings such as wood, vinyl, linoleum, terrazzo or other resilient floor finish material or carpeting which complies with the DOC FF-1 “pill test” (CPSC 16 CFR, Part 1630) in all spaces including exits and exit access corridors. (805.3, Exception).

TABLE NO. 1
Summary of Atrium Requirements
Massachusetts States Building Code — Sixth Edition

1 Classify any openings in the floor systems connecting two or more stories as an atrium. (404.1).

2 Provide a complete automatic suppression system in the portions of the building not separated from the atrium by two hour fire separation partition and floor assemblies (404.2).

3 Limit the use of the floor of the atrium low hazard uses with approved materials and decorations unless appropriately protected with automatic fire suppression system. (404.3).

4 Allow exit discharge through the atrium in accordance with the rules for exit discharge through a lobby in Section 1020.0. (404.3.1).

5 Provide a smoke control system as required by Section 921.0. (404.4)

6 Separate the atrium from adjacent spaces by 1-hour fire separation walls, fire rated windows or tempered, wired or laminated glass walls constructed as required by Section 404.5 [Exception 2] except as noted in Item 7 below (404,5).

7 Allow up to three levels of the building to be open to the atrium without the separation required by Item 6. (404.5, Exception 3).

Only limited portions of the First Floor of the building will be open to the atrium. Most spaces will be separated from the atrium spaces by glass walls protected by closely spaced sprinklers.

8 Provide automatic smoke detectors within and at the perimeter of the atrium and on the ceilings of spaces not separated from the atrium (404.6.)

The extent of coverage by smoke detectors is not explicitly stated in the code. Coverage should be provided in the area immediately surrounding the atrium and all corridors which are open to the atrium. The specific extent of coverage should be determined in discussions with the authorities having jurisdiction.

9 Arrange automatic smoke detectors within the atrium space to sound fire alarms upon activation of an two or more of the detectors. (Not required).

No explicit requirement that two or more smoke detectors be required to operate before fire alarms are sounded is found in the current edition of the code. However, that means of operation is one reasonable approach to limiting the effect of false alarms from smoke detectors (Such a requirement did appear in previous editions of the NBC.) Other technical approaches to limiting the false alarm problem are available such as addressable detectors and alarm confirmation circuits. The specific arrangement of the detection system in this facility should be determined in discussions with the authorities having jurisdiction

10 Activate the fire alarm system using signals from sprinkler system water-flow detectors and manual pull stations. (406.6, 917.7,1).

11 Utilize a voice or non-voice alarm system which complies with the detailed provisions of Section 917.9. (404.6)

12 Limit the distance of exit access travel within the atrium on other than the lowest levels of the building to not more than 150 feet. (404.7).

Exhibit 10.20

LEASE DEED

THIS LEASE DEED ("**Deed**") is made at Chennai on this the 24th day of October, 2011

BY AND BETWEEN

M/S. FAERY ESTATES PRIVATE LIMITED, a company incorporated under the Companies Act, 1956 and having its registered office at 70, Nagindas Master Road, Mumbai 400023 represented herein by its authorized signatory, Mr. Jair Dsouza, authorized by the board resolution dated (hereinafter referred to as the "**LESSOR**", which expression shall, unless repugnant to the context or meaning thereof, include its successors, and permitted assigns) of the **ONE PART**

AND

M/S. ATHENA HEALTH TECHNOLOGY PRIVATE LIMITED, a company incorporated under the Companies Act, 1956, having its registered office at Building 3B, Floor 7, RMZ Millenia Tech Park, 143, Dr MGR Road, Perungudi, Chennai - 600096, represented by its duly authorized signatories, Mr. Hari Krishnan Pratap, authorized by the board resolution dated 23rd day of September 2011, (hereinafter referred to as the "**LESSEE**", which expression shall, unless repugnant to the context or meaning thereof, include its successors, and permitted assigns) of the **OTHER PART**.

The Lessor and the Lessee shall hereinafter be collectively referred to as the " **Parties**" and individually as a "**Party**".

WHEREAS:

A. The Lessor, is the owner, developer and promoter of a building named "S.P. Infocity" situated at MGR Salai, Kandanchavadi, Perungudi, Chennai - 600096 ("**Building**") which is more particularly described in **Schedule A** hereunder.

B. The Lessee is engaged in the business of Information Technology/Information Technology Enabled Services (" **IT/ITES**") under the trademark/brand name "ATHENA HEALTH TECHNOLOGY PRIVATE LIMITED" and has acquired a high reputation and considerable goodwill in the said business.

C. The Parties executed Heads of terms dated 25th May, 2011 whereby the Lessor has agreed to grant to the Lessee lease of the Demised Premises (as defined in Clause 2 herein).

D. The Parties confirm that they have carefully read the terms and conditions of the grant of lease of the Demised Premises as set forth in this Deed and have understood and accepted their obligations and liabilities as set forth herein. The Parties, in their own judgment and investigations, have decided to enter into this Deed which is self-contained, complete, and final in all respects. The Parties undertake to faithfully abide by all the terms and conditions of this Deed.

NOW THEREFORE IN CONSIDERATION OF THE MUTUAL PROMISES AND COVENANTS SET FORTH HEREINAFTER, THE PARTIES HERETO AGREE AND WITNESSETH AS FOLLOWS:

1. INTERPRETATION

In this Deed unless the context otherwise requires:

(i) words importing the singular shall also include the plural and vice-versa, words importing a particular gender include all genders and words importing persons shall include companies or other associations of persons, other bodies corporate and government bodies or agencies;

(ii) any obligation or agreement on part of two or more persons shall bind each of them jointly and severally;

(iii) headings have been inserted for convenience only and shall not control the meaning and shall not control and affect the construction or interpretation of the terms of this Deed;

(iv) reference to Articles, clauses, sub-clauses, annexures and schedules shall, except where the context otherwise requires, be deemed to be references to Articles, clauses, sub-clauses, annexures or schedules of or to this Deed ;

(v) whenever in this Deed, the consent or approval of the Lessor is required to be obtained, such consent shall be in writing and shall be subject to such conditions as the Lessor may deem fit to impose on the Lessee in the circumstances;

(vi) references to notices to be given by 1 (one) Party to the other shall mean prior written notice and unless otherwise prescribed, such notice is to be given in reasonable time;

(vii) any obligation on either Party not to do an act or thing includes an obligation on such Party not to permit or allow that act or thing to be done;

(viii) any reference to any period commencing “from” a specified day or date and “till” or “until” a specified day or date shall include both such days or dates;

(ix) any reference to day shall mean a reference to a calendar day and any reference to month shall mean a reference to a calendar month and

(x) the Schedules and Annexures to this Agreement form an integral part of this Agreement and will be in full force and effect as though they were expressly set out in the body of this Agreement.

2. DEMISED PREMISES

In consideration of the lease rent hereinafter reserved, the Lessor hereby grants to the Lessee, lease of the Unit bearing Module No. 3 & 4 on the ninth floor of Block A, having a total area of 37506 (Thirty Seven Thousand Five Hundred and Six) square feet as more specifically described in **Schedule B** herein, in accordance with the floor plan enclosed and marked in **Annexure A - Part I** hereto ("**Demised Premises**").

The Super Built Up Area will be calculated as follows: Usable area / (78% +/- 2%). The usable area is defined as the area that will be used by the Lessee exclusively for their use. It is the sum of the office area, the dedicated wash rooms, dedicated AHU rooms, dedicated electrical rooms and the dedicated passage ways to the washrooms. The detailed area statement is described in **Annexure A - Part II**.

The detailed warm shell specification of the leased space that will be handed over by the Lessor to the Lessee is described in Annexure A - Part III.

3. POSSESSION

3.1. The Demised Premises shall be handed over to the Lessee on or before 24 th October, 2011, subject to:

(i) this Deed being duly executed; and registered.

(ii) the refundable security deposit as per Clause 7.1 herein having been received by the Lessor from the Lessee.

4. LEASE TERM

4.1. The term of the lease herein ("the Lease Term") shall be for a period of 3 (three) years commencing from 1 st of November 2011 ("Lease Commencement Date") to 31st October, 2014 ("Lease Expiry Date"). The Lease Term shall be deemed to have commenced immediately from the Lease Commencement Date.

5. CONSIDERATION

5.1. As and by way of consideration for the grant of lease of the Demised Premises by the Lessor to the Lessee, the Lessee shall pay to the Lessor lease rent ("**the Warm Shell Lease Rent**, of Rs. 34.00 (Rupees Thirty Four only) per square foot per month of the billable area i.e. 37,506 (Thirty Seven Thousand, Five hundred and Six) square feet, of the Demised Premises amounting to Rs 12,75,204.00 (Rupees Twelve lakhs Seventy Five Thousand Two hundred and Four only) per month.

5.2. The Lessee shall pay in advance to the Lessor, for the entire Lease Term, the Warm Shell Lease Rent in respect of 1 (one) calendar month within 7 (seven) working days of the beginning of the first month of every such one month term. In addition to the Warm Shell Lease Rent, the Lessee shall pay to the Lessor, the applicable service tax or any such tax that may be imposed by the relevant authority on the Warm Shell Lease Rent during the Lease Term. With respect to the payment of service tax amounts to the relevant authorities the Lessor confirms that they shall periodically furnish to the Lessee, proof of the service tax remittances

The Warm Shell Lease Rent shall be subject to deduction of income tax at source at the rates, as applicable, from time to time, unless the Lessor provides a lower withholding order issued by the Indian Income Tax authorities. The Lessee shall provide details of the tax deducted at source, and issue TDS certificates, at the end of every financial year. Rent for any part of a month will be prorated on the basis of a 30 day month and paid for that portion of the month only.

5.3. The obligation of the Lessee to make payments to the Lessor towards the Warm Shell Lease Rent as stipulated in Clauses 5.1 and 5.2 herein will be effected by the Lessee upon receipt of an invoice and/or demand being raised by the Lessor.

5.4. In the event the lease is renewed as stated in clause in clause 30 hereinbelow, the Warm Shell Lease Rent for the Demised Premises shall escalate by 15% (Fifteen percent) on the last paid Warm Shell Lease Rent.

5.5. In the event of any delay in payment of the Warm Shell Lease Rent beyond the due date for the same, the Lessee shall be liable to pay an interest on such amount(s) due at the rate of 18% (Eighteen per cent) per annum for the period commencing from the due date for such payment till the date of complete payment of the same.

5.6. The tabular chart detailing the exact amount to be paid by the Lessee to the Lessor every month for the entire Lease Term, towards the Warm Shell Lease Rent is provided in **Annexure B** hereto.

6. WARM SHELL LEASE RENT COMMENCEMENT DATE

The Lessee shall be entitled for Warm Shell Lease Rent-free period commencing from the Lease Commencement Date till the 31 st December, 2011 ("**Rent Free Fit Out Period**").

The "**Warm Shell Lease Rent Commencement Date**" shall be 1st January, 2012.

The Warm shell Lease Rent shall become due and payable from the above mentioned Warm Shell Lease Rent Commencement Date irrespective of whether the Lessee completes the fit outs within the Rent Free Fit out Period.

7. INTEREST FREE REFUNDABLE SECURITY DEPOSIT

7.1. The Lessee shall deposit and keep deposited with the Lessor on execution hereof a sum of Rs. 51,00,816.00 - (Rupees Fifty One lakhs Eight Hundred and Sixteen only) as and by way of an Interest Free Refundable Security Deposit (" **the Security Deposit**") equivalent to 4(four) months of Warm Shell Lease Rent, to secure the obligations of the Lessee under this Lease. The aforesaid sum of security deposit shall be paid by the Lessee to the Lessor on or before the signing of this Agreement. In the event the lease is renewed in accordance with clause 30 hereinbelow, the Interest Free Security Deposit shall escalate in proportion to the increase in rent, i.e 15% after every 3 (Three) years of the Lease term to ensure that at all times, the Interest Free Security Deposit shall be equivalent to 4 (four) month warm shell lease rent.

7.2. The Security Deposit shall not be refundable to the Lessee during the continuance of this Agreement.

The Security deposit shall be refunded to the Lessee free of interest 2(Two) week upon expiry of this Agreement or sooner determination thereof or provided herein, only upon

the Lessee removing itself, its agents, employees, staff and all other persons in occupation of the Demised Premises and its respective belongings, chattels, articles and removable fittings and fixtures and on handing over to the Lessor physical and actual vacant and peaceful possession of the Demised Premises. After peaceful hand over of the property by the Lessee to the Lessor, both parties shall sign a handover / take over document of the same and the Lessor shall specify in the handover / take over document, that the refund of the deposit shall be made within 2 (two) weeks thereon. It is hereby agreed that 30 (thirty) days prior to the expiry/early termination of this Lease Deed, both Parties shall carry out a joint assessment of the damages / the outstanding payments, if any, due from the Lessee and payable to the Lessor. The Lessee, based on the joint assessment, shall pay such outstanding amounts, if any, to the Lessor on the date of the expiry / early termination of this Lease Deed.

If the Lessee fails to pay such outstanding amounts the same shall be adjusted against the Security Deposit.

If the Lessor fails to refund the Security Deposit as described hereinabove, the Lessor will be liable to pay an interest on such amount(s) due at the rate of 18% (Eighteen per cent) per annum for the period commencing from the due date for such payment till the date of complete payment of the same.

8. TAXES

The Lessor shall be responsible, at its sole cost, for all present and future municipal taxes and property taxes with regard to the Demised Premises during the Lease Term. However, all taxes payable directly on account of the business activities carried on by the Lessee in the Demised Premises shall be borne and paid by the Lessee. Each Party shall indemnify the other Party against any claims, proceedings, actions, etc. for non-payment or delay in payment of tax payable by it in accordance with this Clause.

9. INSURANCE

9.1 The Lessor shall, at all times during the Lease Term, keep the Demised Premises and the Building insured against any structural damage, damage by fire, earthquake, riots and other risks at its own costs for the entire value of the Demised Premises/Building. Such insurance shall be a general fire and allied perils and third party insurance that would be

expected to be obtained in respect of a high quality commercial facility with only regular, commercially acceptable exclusions. The Lessor shall provide 1(one) certified copy of the said insurance policy to the Lessee.

9.2 The Lessee shall take a general fire and allied perils and third party insurance at its own cost for its goods and articles lying in the Demised Premises. The Lessee shall provide 1(one) certified copy of the said insurance policy to the Lessor.

10. PARKING FACILITY

10.1 The Lessee and its customers, guests, employees, contractors, agents, servants, visitors and invitees shall, subject to availability, park their vehicles only in the spaces specifically earmarked/set aside, from time to time, by the Lessor for parking and subject to the payment of such parking fee as may be applicable.

10.2 The Lessor shall provide to the Lessee for its exclusive use, 37 (Thirty Seven) covered car parking spaces and 74 (Seventy Four) two wheeler parking spaces, free of cost during the Lease Term. A detailed plan delineating the covered car parking spaces and two wheeler parking spaces is shown in **Annexure C** enclosed hereto.

10.3 In the event the Lessee requests for additional car parking space, the Lessor shall, at his sole discretion, subject to availability, make the same available to the Lessee, at the rate of Rs. 2,500 (Rupees Two Thousand Five Hundred only) per car parking space per month for each additional car parking space and Rs. 350 (Rupees Three Hundred Fifty only) per two wheeler parking space per month for each additional two wheeler parking space.

The Lessee shall pay such amount to the Lessor in respect of each calendar month within 7 (seven) working days of the beginning of each month.

In the event of the lease being renewed the charges for additional car parking spaces shall escalate by 15 % (fifteen percent) over and above the last paid Additional Car /Two Wheeler Parking charges.

10.4. The Lessee agrees, after notice thereof, to abide by all rules, regulations and restrictions framed by the Lessor, and use its reasonable efforts to cause its customers, guests, visitors, contractors, invitees, agents and servants to conform thereto. The Lessee shall, upon request, use its reasonable efforts to furnish to the Lessor, the registration numbers and other details of the vehicles used by the Lessee and its employees, etc.

10.5 The Lessee shall not be entitled to claim any vested right to any car parking space other than as stated herein in this Lease Deed.

10.6. It is clearly understood and expressly agreed by the Lessee that any security provided by the Lessor in the Parking area is general in nature, scope and intent, the Lessor neither covenants nor undertakes to secure, guarantee or be liable for the security or any damage caused to any vehicle parked in the Building.

11. FIT OUTS

11.1. On and from the Lease Commencement Date, the Lessor shall permit the Lessee to enter upon the Demised Premises for carrying out work relating to installation of the Fit Outs and Furnishings in the Demised Premises required for commencing its permitted business. (" **Fit Outs and Furnishings**")

11.2. From the Lease Commencement Date to 31st December 2011 ("Rent **Free Fit-out Period**"), the Lessor shall permit the Lessee to carry out the installation of Fit Outs and Furnishings for commencing its permitted business. This period shall be deemed as rent free period during which period the Lessee will not be liable to pay the monthly Warm Shell Lease Rent. In case the period taken by the Lessee for the installation of the Fit Outs and Furnishing exceeds the 1st of January, 2012, the applicable rentals have to be paid by the Lessee from the 1st of January 2012.

11.3. It is expressly agreed between the Parties that the Fit Outs and Furnishings which the Lessee carries out and provides in the Demised Premises shall always belong to the Lessee. If the Lessee chooses to vacate the Demised Premises, the Lessee agrees to remove all the Fit Outs and Furnishings and restore the Demised Premises to its original warm shell condition.

11.4. The Fit Outs and Furnishings shall be carried out by the Lessee in accordance with the applicable laws, rules and regulations and without damaging the works carried out by the Lessor in the Demised Premises,(normal wear and tear being accepted).

11.5. It is hereby agreed between the Parties that and if any structural damage is caused to the Demised Premises by virtue of the Lessee's Fit Out and Furnishings works, then the Lessee shall indemnify the Lessor for all direct losses or damage at its actual cost as determined by the relevant consultants jointly appointed by the Lessor & Lessee in this regard. Such reimbursements shall be made within 30 (thirty) days from receipt of a demand in writing for the same by the Lessor.

11.6. The Lessee shall reimburse the Lessor and bear all the costs towards electricity, fuel or any other utility charges of whatsoever nature, for undertaking the work on the Fit Outs and Furnishings in the Demised Premises during the Fit-Out Period. The Lessee shall install calibrated meters to calculate the consumption of raw power and water during the Fit-Out Period. The DG power consumption shall be charged on actual unit consumption ratio of TNEB power to DG power. The Lessor shall raise an invoice in the name of the Lessee for the amount to be reimbursed for such utility charges based on these calibrated meters. The Lessee shall make the payment of the said amount by cheque/pay order within 30 (thirty) days from the date of the receipt of the said invoice from the Lessor.

11.7. The Lessee shall be responsible for the maintenance of their assets in the demised premises including their Fit Outs and Furnishings.

11.8. The Lessee shall carry out its work on installation of the Fit Outs and Furnishings in accordance with the fit-out guidelines (" **Green Building Fit-Out Guidelines**") as provided by the Lessor.

On the expiration or earlier termination of the lease, the Lessor may, permit the Lessee to transfer the Fit Outs and Furnishings owned by the Lessee to the Lessor's prospective licensee/lessee, if so required by such prospective licensee/lessee on terms as mutually agreed to between the Lessee and the prospective Licensee / Lessee.

12. SIGNAGE

12.1 The Lessee shall be at liberty to place its name boards and signage in consonance with the signage guidelines, if any, stipulated by the Lessor. In the absence of any such guidelines, the Lessee shall be at liberty to place its name boards and signage at places designated by the Lessor as follows:

a. At the signage directory in the entrance of the atriums.

b. On the North West side of the concrete façade.

12.2. The cost of installing and hoisting such signage shall be to the Lessee's account.

12.3 For installation and hoisting of any signage, in addition to the space provided by the Lessor, the allocation of the signage space would be at the sole discretion of the Lessor. All municipal charges, expenses for fabrication and erection of structure and other associated charges for the signage shall be payable by the Lessee. The Lessee shall also obtain all the necessary permissions and comply with the statutory requirements for mounting such signage.

13. AMENITIES

13.1. The Lessor shall provide 1 KVA of electric power for every 100 (Hundred) square feet of Leasable area i.e. 37,506 (Thirty Seven Thousand Five Hundred and Six) square feet area of the Demised Premises. The Lessee shall pay the per unit of electric power, which will be at the tariff charges issued by the Tamil Nadu Electricity Board (TNEB), which includes the minimum demand, usage charges, taxes and all other components in the energy bill) for the electricity consumed in the Demised Premises as per the reading of the separate meter provided for the Demised Premises by the Lessor. The per unit charges will be derived by dividing the monthly energy bill (received by the Lessor from TNEB), by the number of units consumed. Additional power if required by the Lessee will be given subject to availability at the sole discretion of the Lessor at the prevailing market rate at the relevant point of time. However if the allocated power is not consumed, the minimum demand + applicable taxes as charged by Tamil Nadu Electricity Board (TNEB) to the Lessor shall be charged to the Lessee.

13.2. The Lessor confirms that it will provide 100% (one hundred per cent) power back-up 24 (twenty four) hours a day, 7 (seven) days a week and 365 (three hundred and sixty five) or 366 (three hundred and sixty six) days a year as the case may be, for the Demised Premises. The Lessee shall pay Rs 14.00 (Rupees Fourteen only) per unit for the generator back-up power consumption as per meter reading. A calibrated meter will be installed at the source of generation to account for the units generated at the cost and expense of the Lessor. The consumption shall be arrived at by calculating the ratio of the Tamil Nadu Electricity Board generated units to the diesel generated units. The Diesel generator shall be operated for the number of hours as directed by the Tamil Nadu Electricity Board from time to time.

13.3. The Lessee shall also pay for meter losses (transmission losses) at the rate of 4% (four per cent) of the monthly power bills, on account of conversion of high transmission power to low transmission power in accordance with the Tamil Nadu Electricity Supply Act, 1948 and rules framed there under.

13.4. The Lessor has provided water and has arranged supply of chilled water for AHU's to the Demised Premises 24 (twenty four) hours a day. The Lessee shall pay the same charges as applicable for power and power back up rates upon British Thermal units converted to Kilo watt hour units, which is converted as 1 British Thermal Unit is equal to 0.000293 Kilo Watt Hour Units, for supply of chilled water for AHUs to the Demised Premises charges as per the reading of the BTU Meter installed by the Lessor in this regard. The BTU units converted to electricity units shall be charged as described in the clause 13.1 and 13.3.

13.5. The water used in washrooms will be calculated using calibrated meters and shall be billed to the Lessee. These calibrated meters shall be fixed at the source of water supply in the shaft by the Lessor.

13.6. The charges stated in clause 13.1, 13.2, 13.3, 13.4 may increase if there is any increase by the TNEB or in the tariff charges for diesel, which will be informed to the Lessee and such an increase shall be borne by the Lessee.

The Lessee undertakes to pay the bills for services mentioned in clauses 13.1,13.2, 13.3, 13.4 and 13.5 and without reminders from the Lessor. on or before seven days from receipt of the bill, raised by the Property Management Agency appointed by the Lessor. The Lessee should pay the bill within 7(seven) days of receipt of the bill. In the event the Lessee does not pay the said bill amount within the due date, the Lessor shall take no responsibility for any disconnection of services to the Demised premises. If the said services are disconnected to the Demised Premises, the Lessee shall bear charges towards reconnections of the same. The Lessor takes no responsibility for non-availability of the said services and also direct/indirect loss if any caused to the Lessee. The Lessee shall not be entitled to claim any costs or damages from the Lessor in such an event of disconnection of power due to non payment by the Lessee.

13.7. The Lessor shall provide a common dining area with a capacity of 300 (three hundred) covers for the use of the Lessee and its customers, guests, contractors, agents, servants, employees, visitors and invitees along with the other users of the Building.

14. MAINTENANCE

In addition to this lease, the Lessor shall provide maintenance services for the common areas and both the Parties will sign a separate agreement in this regard. This separate agreement shall brief the scope of services towards Common Area Maintenance and also the charges to be borne by the Lessee towards the same.

15. RIGHTS AND PRIVELEGES OF THE LESSOR

15.1. It is the sole discretion of the Lessor to determine the Warm Shell Lease Rent of different leased units within the Building. Such Warm Shell Lease Rent may vary from one leased unit to the other due to various factors such as location of the leased units, the size of the leased units, the type of trade activity or business relations and mutual interest between the Lessor and the Lessee. The Warm Shell Lease Rent of any leased unit within the Building shall not be considered, at any time, as measure for application to other units or used as a basis for comparison to other units and the Lessee shall not be entitled to demand the Lessor to apply to the Demised Premises, lease fees, similar or equivalent to that charged to the other occupants of the Building.

15.2. In the event the Lease Term is not renewed by the Parties, the Lessee shall permit, 30 (thirty) days before the Lease Expiry Date, all the prospective lessees of the Demised Premises accompanied by authorized representatives of the Lessor, free ingress to and egress from the Demised Premises for the purpose of viewing the Demised Premises with not less than 48 (forty eight) hours prior intimation to the Lessee and such permission is subject to the Lessee being able to carry on its business operations in the Demised Premises peacefully and effectively and the Lessor and such authorized representatives of the Lessor complying with the Lessee's security and access control measures.

15.3 The Lessor shall have the right, from time to time, to improve, extend, or in any manner whatsoever alter and to deal with the said Building/Park and also to bring in any modification or changes therein. In particular the Lessor shall have the right, at all times and from time to time throughout the Lease to;

a) Change the area, size level, location and/or arrangement of the Park or any part thereof, including, and without limitations, common areas and facilities and the entrances and the exits from the common areas and facilities.

b) Construct multiple deck, elevated or underground parking facilities and expand, reduce or alter the same in any manner whatsoever

c) Re-locate or re-arrange the various buildings / future developments, parking areas and other parts of the building/park.

d) Make changes and additions to pipes, conduits and ducts or other structures and non-structural installations in the Demised Premises to serve the common areas and facilities and the other Premises in the building or to facilitate expansion or alteration of the Building/Park.

e) Change the character of and the materials used for the walls and partitions that separate the Premises, or any part thereof, from adjacent Premises as may be necessary for the benefit of the Park/Building as determined by the Lessor.

f) Temporarily obstruct or close off the common areas and facilities or any part of the Building/Park for the purposes of maintenance, repairs or construction.

g) During the course of improvements conducted by the Lessor as mentioned in Clause 15.3 (a, b, c, d, e & f), the Lessor shall ensure that the Lessee and their employees, visitors, agents, contractors, guests, servants and invitees shall have safe passage to enter Demised Premises and the Lessor shall ensure that there will be no interruption to the use of their Demised Premises and other facilities as described in this Lease Deed.

16. COVENANTS AND REPRESENTATIONS OF THE LESSOR

The Lessor hereby warrants and represents with the Lessee:

16.1. That the Lessor has good and marketable right, title and interest to the Demised Premises.

16.2. That save and except creating security by way of mortgage/charge in or upon the Demised Premises in favour of banks or financial institutions for the purpose of raising finance, the Lessor has not created any third party interest in the Demised Premises. The Lessor represents that such third party interest does not, in any way, prevent the Lessee from enjoying the Demised Premises peacefully and freely as per the terms agreed in this Lease Deed for the entire duration of the Lease Term.

16.3. That upon the Lessee paying the Lease Rent herein reserved, and all other payments required to be made herein and duly observing and performing the terms and conditions on the Lessee's part herein contained, the Lessee shall be entitled to peaceful and quiet enjoyment of the Demised Premises during the Lease Term;

16.4. That the Lessor shall observe due performance of the terms and conditions of this Deed and shall not commit breach of the terms and conditions contained herein;

16.5. That the Lessor is the owner of and is absolutely seized and possessed of the Demised Premises, and has full authority to give the Demised Premises on lease for the unencumbered and continued use of the Lessee for the term of this Deed and also the Lessor has full rights to execute and implement this Deed;

16.6. That any security provided by the Lessor in the Building is general in nature, scope and intent and the Lessor neither covenants nor undertakes to secure, guarantee or to be liable for the security of the Demised Premises or anything therein or anywhere.

16.7. That there are no latent or structural defects, hidden or otherwise, in the Demised Premises and/or Building, electrical, plumbing and elevator systems, and the same are in good and proper working order;

16.8. That the Demised Premises have been constructed in accordance with the specifications and with high quality materials by the Lessor as per the sanctioned/approved plans and designs sanctioned by the municipal/government authorities in Chennai;

16.9. That there is presently no existing or threatened claim, action, litigation, arbitration, governmental investigation, garnishee or any other proceeding relating to the Demised Premises or the transactions contemplated herein, which affects the Lessee's right for peaceful occupation of the Demised Premises, hereby granted and the Lessor shall give the Lessee immediate notice of such claim, action, litigation, arbitration, governmental investigation, garnishee or other proceeding prior to or after execution of this Lease Deed hereof.

16.10. That the execution, delivery and performance of this Deed by the Lessor and the performance of its obligation hereunder have been duly authorized and approved by all necessary action and no other action on the part of the Lessor is necessary to authorize the execution, delivery and performance of this Deed;

16.11. That no representations or warranties by the Lessor in this Deed and no document furnished or to be furnished by the Lessor to the Lessee pursuant to this Deed or in

connection herewith or with the transactions contemplated hereby, contain or will contain any untrue or misleading statement or omits or will omit any fact necessary to make the statement contained herein or therein, in light of the circumstances under which they are made;

16.12. That the Lessor shall, forthwith, upon a request in this regard by the Lessee, extend all necessary cooperation to register this Deed in respect of the Demised Premises and the Lessee shall bear the costs towards the stamp duty and registration charges.

16.13. That the Lessor shall not, without the Lessee's prior written consent, use the name, trademark/design or logo registered in the name of the Lessee for any advertisement or publicity purposes.

17. COVENANTS AND WARRANTIES OF THE LESSEE

The Lessee hereby warrants and represents with the Lessor:

17.1 That the Lessee is duly organized and validly existing under the laws of India;

17.2 That the Lessee has the power and authority to enter into this Deed and perform its obligation hereunder;

17.3 That the execution, delivery and performance of this Deed by the Lessee and the performance of its obligation hereunder have been duly authorized and approved by all necessary action and no other action on the part of the Lessee is necessary to authorize the execution, delivery and performance of this Deed;

17.4 That this Deed has been duly executed and delivered by the Lessee and is a valid and binding obligation of the Lessee and is enforceable against the Lessee in accordance with the terms and conditions thereof;

17.5 That no representations or warranties by the Lessee in this Deed and no document furnished or to be furnished by the Lessee to the Lessor pursuant to this Deed or in connection herewith or with the transactions contemplated hereby, contain or will contain any untrue or misleading statement or omits or will omit any fact necessary to make the statement contained herein or therein, in light of the circumstances under which they are made;

17.6 That the Lessee has conducted a due diligence solely based on the documents and information provided by the Lessor to the Lessee and are satisfied of the Lessor's title to the Demised Premises based on such diligence.

17.7 That the Lessee has agreed and undertaken to conduct its business in the name of "ATHENA HEALTH TECHNOLOGY PRIVATE LIMITED" from the Demised Premises and to restrict its use of the Demised Premises to the conduct of business in the area of IT/ITES. The Lessee shall use the Demised Premises for the purpose of the permitted business only and shall obtain all the licenses, permits and consents in respect thereof;

17.8 That the Lessee agrees and confirms that the lease granted to the Lessee under this Deed is limited and restricted to the use of the Demised Premises only. Save and except for the rights granted under this Deed, the Lessee shall not be entitled to any other rights in the balance area of the Building;

17.9 That the Lessee shall be solely liable for all its transactions with its employees and customers, which may take place in the Demised Premises;

17.10 That the Lessee shall, at the request of the Lessor, produce for inspection of the Lessor, all such licenses & permissions prescribed by any competent authority or prescribed under applicable law or rule or regulation for the purpose of running the Demised Premises for the said business;

17.11 That notwithstanding anything herein contained, it is hereby expressly agreed and declared that this Deed is not intended to confer and nor does it confer any tenancy rights and/or any right or interest in the nature of tenancy and/or sub-tenancy and/or any other right or interest in the Demised Premises in favour of the Lessee. That notwithstanding anything herein contained, it is hereby expressly agreed and declared that this Agreement is not intended to confer and nor does it confer any right upon the Lessee to create tenancy rights and/or any right or interest in the nature of tenancy and/or sub-tenancy and/or any other right or interest in the Demised Premises in favour of any third person;

17.12 That the Lessee shall not do or permit to be done any act whereby the value of the Demised Premises is deteriorated or diminished, (subject to normal wear and tear, as mutually agreed between both parties), or the Lessor's rights in the Demised Premises are in any way prejudicially affected;

17.13 As and by way of consideration for the grant of lease of the Demised Premises by the Lessor to the Lessee, the Lessee shall pay to the Lessor lease rent (hereinabove referred to as the Warm Shell Lease Rent):

17.14. That the Lessee shall ensure that the Demised Premises and the right, title and interest of the Lessor therein is not encumbered, prejudiced or jeopardized in any manner and on account of any act or omission on part of the Lessee;

17.15 That the Lessee shall be solely liable and responsible in all respects for all the acts and omissions of itself, its employees, customers and agents and for all claims of any nature made against it and no such claim shall be enforceable against the Demised Premises under any circumstances;

17.16 That the Lessee shall not carry on in the Demised Premises or any part thereof, activities which are illegal, immoral, unlawful or which shall cause nuisance to other occupants of the property/Building wherein the Demised Premises are situated and shall not store any goods of combustible nature in the Demised Premises or any part thereof, or in any manner interfere with the use of any open space, passage or amenities available for common use and not specifically allotted to the Lessee by these presents as part of the Demised Premises;

17.17 That the Lessee shall permit the Lessor and its agents, surveyors and workmen to enter into and upon the Demised Premises on any day at reasonable times after 1 (one) hours advance notice given in writing for the purpose of doing such works and things as may be requisite or necessary for any repairs, either of the Demised Premises and the water pipes and drains in or under the same, or of any other part of the Demised Premises as requested by the Lessee, subject to the Lessor and its agents, surveyors and workmen complying with the Lessee's security and access control measures;

17.18 That the Lessee shall alone be responsible to resolve any nuisance or annoyance or disturbance caused by the activities conducted by the Lessee in the Demised Premises at its own cost and expenses;

17.19 That the Lessee shall not, without the Lessor's prior written consent, use the trademark/design logo registered in the name of the Lessor or the name of the Building/Park for any advertisement, or purpose other than while mentioning the address and place of business of the Lessee;

17.20 That the Lessee shall not, under any circumstances, make any structural additions or changes to the Demised Premises. The Lessee can, subject to the prior written permission of Lessor (which permission shall not be unreasonably withheld), make other non-structural alteration/addition, at the cost of the Lessee and subject to the Lessee obtaining necessary permission in this regard, if required, from the appropriate authorities. The Lessee shall not be entitled to alter or modify the external elevation of the Demised Premises in any event;

17.21 That the Lessee shall not, whether in the course of its interior fitting out works or as any thing ancillary thereto or at any time for any purpose whatsoever, execute or permit to be executed any works involving cutting/chopping/digging/hacking/dismantling in any manner or form/destroying in any manner or form, the floors or walls of the Demised Premises without the prior written permission of the Lessor in this regard The Lessor shall not unreasonably withhold or deny such permissions subject to the Lessee not damaging the Lessor's Demised Premises and Building if they are making interior related changes provided the Lessee having requisite permission from CEIG for electrical related changes

17.22 That the Lessee shall not in any way obstruct or permit the obstruction of any walkways, pavements, entrances, passages, courts, corridors, service ways, vestibules, halls, roads, docks, stairways, elevators, hoists, escalators, fire or escape doors within or outside the Demised Premises or other parts of the Common Areas or any appurtenances or conveniences thereto;

17.23 That the Lessee shall not, in any way cover or obstruct any lights, sky lights, windows or other means of illumination of the Common Areas or of the Building generally; and

17.24 That the Lessee shall not litter any part of the Common Areas or any public footpath or way immediately adjoining the Demised Premises, and further shall not place any article, or other like things upon the sill, ledge in any part of the Demised Premises or the Common Areas.

17.25. The Lessee hereby accepts and is aware that the Lessor may complete construction of the said Building/Info Park and that the Lessor shall be entitled to carry on the remaining work, including further and additional construction work in the said Building/Info Park of which the Demised Premises forms a part and if any nuisance is caused to the Lessee, the Lessee shall not be entitled to object or obstruct the execution of such work nor shall the Lessee be entitled to claim any compensation and/or damages or abatement/reduction of warm shell Lease rent or other charges; except in the event of

any default or negligence of the Lessor on account of which the Lessee's rights under this Agreement including the Lessee's access to, occupation and use of the Demised Premises and the effective operation of the Lessee's business from the Demised Premises is adversely affected . However the Lessor shall all times take due care not to obstruct the Lessee's access to demised premises.

17.26 In the event the Lessor arranges with any Bank/Financial Institutions for discounting the amount of Warm Shell Lease Rent receivable by it, the Lessee, upon receipt of written instruction from the Lessor, shall pay the amount of Warm Shell Lease Rent to such Bank/ Financial Institution or the designated account of the Lessor, as directed by the Lessor and the Lessor hereby confirms and agrees that such payment shall constitute a proper, valid and effective discharge of the obligation of the Lessee for payment of the Warm Shell Lease Rent to the extent of amount paid. It is clarified that the Lessee shall not be liable to bear any costs charges or expenses in respect of such arrangement of the Lessor with such Bank/Financial Institution and the same shall not be in deviation from the terms and conditions agreed for the payment of the Warm Shell Lease Rent under this Agreement.

18. IT IS MUTUALLY AGREED BY & BETWEEN THE PARTIES AS FOLLOWS:

18.1. The Lessee agrees and consents that it would have no objection to the Lessor raising finance by way of mortgage/charge of the Demised Premises subject to, however, that the creation of such mortgage/charge of the Demised Premises shall be subject to this lease and shall not affect the rights of the Lessee to freely and peacefully enjoy the Demised Premises during the Lease Term. The LESSOR however shall intimate the LESSEE of such mortgage or encumbrance that has been created over the subject property.

18.2. The Lessor is and shall be free to dispose of or encumber its interest in the Demised Premises whether by way of sale, transfer, charge, mortgage, or otherwise, with prior intimation to the Lessee, subject to, however, that such sale, transfer, charge, mortgage of the Demised Premises shall be subject to this lease and shall not affect the rights of the Lessee to freely and peacefully enjoy the Demised Premises during the agreed Lease Term.

18.3 In the event of such change in ownership, during the term of this lease, the Lessor shall ensure, if required, that they shall cause a fresh lease deed to be executed between New

Owner and the Lessee herein, for the balance unexpired terms of this lease on the same terms and conditions, apart from transferring the security deposit to the New Owner, to enable them to refund the same to the Lessee. Furthermore the charges for such registration of the fresh lease deed (including applicable stamp duty for the lease deed), shall be borne by the New Owner.

18.4. If during the Lease Term, the Demised Premises or any part thereof be acquired or requisitioned by the government or any local body or authority under any law for the time being in force, the Lessor alone shall be entitled to such compensation payable and the Lessee shall not raise any claim in respect thereof.

18.5. All costs, charges, expenses including stamp duty, registration fees, etc., payable on or in respect of the execution and registration of this Deed shall be borne and paid solely by the Lessee.

18.6. It is specifically agreed between the Parties that this is purely a lease granted by the Lessor to the Lessee on a principal to principal basis and shall not be construed in any manner as a partnership, joint venture, franchise or agency between the Lessor and the Lessee nor shall both the Parties constitute an association of persons in any manner whatsoever.

18.7 That failure of either Party to enforce at any time or for any period of time the provision hereof shall not be construed to be waiver of any such provision or of the right thereafter to enforce each and every provision of this Deed.

18.8 The Lessee shall use the Common Areas solely for the purpose for which it is provided for in this Deed, ie. for the purpose of entry and direct exit to a nearest public street, nearest road only to be identified by the Lessor in its sole discretion and such identification by the Lessor in its plans now or in future shall be final, conclusive and binding on the Lessee.

18.9 That the Parties shall maintain strict confidentiality about this Deed and all the terms and conditions herein, as well as regarding all other writings incidental to this Deed.

19. TERMINATION

19.1 It is expressly agreed between the Parties that neither the Lessor nor the Lessee shall be entitled to revoke and/or terminate this Deed for and up to a period of 3 (Three) years from the Lease Commencement Date (the " **Lock-in-Period**") except as stated herein.

19.2 In the event the Lessee terminates this Deed for any reason whatsoever during the Lock-in Period or the Lessor terminates this Deed during the Lock-in Period due to a material breach by the Lessee, of any of the terms, conditions, covenants herein contained, the Lessee shall, in addition to the amounts specified in this Deed, be liable to pay to the Lessor, the Warm Shell Lease Rent for the unexpired portion of the Lock-in Period (" **the Unexpired Rent**"). It is clarified that the Lessee is not liable to pay the Unexpired Rent if it terminates the Lease during the Lock-in Period due to a material breach by the Lessor of the terms of this Deed that remains uncured or an occurrence of a *force majeure* event. It is clarified that there shall be no Lock-in Period for any of the renewed terms.

19.3. On the expiry of the Lock-in Period, the Lessee shall be entitled to terminate the lease herein by giving a prior notice of 3 (three) months in writing informing the Lessor of its intention to terminate this Deed, and on expiry of the said notice period, this Deed shall stand terminated.

19.4 In the event of the Warm Shell Lease Rent or any other amount hereby reserved or any part thereof remaining unpaid after becoming due for a period of more than 15 (Fifteen) days, the Lessor shall have the right to issue a notice calling upon the Lessee to rectify the default within. a period of 7 (Seven) days from the receipt of the said notice. In the event the Lessee fails to rectify the default within the said period the lease shall stand terminated and the Lessor shall enter into the demised premises to assume possession thereof without prejudice to the rights of the Lessor to claim/recover its dues along with interest/damages pending till the date of such termination.

19.5. Either Party shall be entitled to terminate the Lease of the Demised Premises in the event of any material breach of this Agreement by the other Party by issuing a written notice of termination 7 (seven) days in advance of such intended termination calling upon the other Party to rectify the breach within a period of 7 (seven) days of the receipt of such notice. In the event the other Party fails to rectify the breach within the said period, the aggrieved Party shall have the right to terminate this Deed.

19.6. In the event of the Lessee being liquidated or adjudged insolvent, the lease herein shall stand automatically terminated and the Lessor shall enter into the Demised Premises to assume the possession which shall be without prejudice to the rights of the Lessor to claim/recover its dues along with interest/damages pending till the date of such termination.

19.7. In the event of the Lessor being liquidated or adjudged insolvent, the right of Lessee to issue notice of termination shall accrue to the Lessee, if the rights of the Lessee to continue to hold and enjoy peaceful possession of the Demised Premises in terms of this lease deed are affected in any manner whatsoever.

20. CONSEQUENCES OF TERMINATION OR EXPIRY

20.1 Upon expiry or earlier termination of this Deed, the Lessee shall forthwith remove itself and its employees, servants, representatives and agents along with its belongings and hand over to the Lessor, vacant and peaceful possession of the Demised Premises in original handover condition, normal wear and tear excepted, in accordance with the provisions of this Deed. In the event of any delay in handing over of the interest free security deposit to the Lessee by the Lessor, the Lessee shall be entitled to an interest at the rate of 18% (Eighteen per cent) per annum for the delayed period.

20.2 Upon expiry or earlier termination of this Deed if the Lessee fails to remove itself and its employees, servants, representatives and agents and fails to hand over the vacant and peaceful possession of the Demised Premises to the Lessor in terms hereof, the Lessee shall, without prejudice to all other rights and remedies of the Lessor to obtain possession of the Demised Premises, be liable to pay liquidated damages to the Lessor at the pre-agreed rate of 2 (two) days' Warm Shell Lease Rent under this Deed per day which amounts to approximately Rs.86,000/- (Rupees Eighty Six Thousand paise nil only) per day.

21. SUB-LETTING /ASSIGNMENT

21.1 The Lessee shall not in any manner share with or transfer or let or sub-let, license, sub-lease, mortgage in any manner to any person whatsoever the Demised Premises or any portion thereof and or any of the benefits or rights available to the Lessee under this Agreement and shall not part with the possession of the Demised Premises or any portion thereof.

21.2 The Lessee shall not in any manner assign any benefits or rights available to the Lessee under this Deed. However, the Lessee may assign its right in respect of the Demised Premises only

a) to the Lessee's holding company "Athenahealth Inc" or

b) to the Lessee's subsidiaries/group companies (wherein the Lessee shall have and maintain a controlling majority shareholding and/or are in control of the management), for the unexpired lease term, with the prior written permission of the Lessor, subject to the assignee as specified in sub-clause (a) and (b) entering into a separate and fresh Lease Deed with the Lessor on the same terms and conditions as agreed upon in this Deed.

Provided that the assignment for the unexpired period shall always be subject to the following:

- All costs in relation to the assignment shall be borne by the Lessee/assignee and the Lessor shall not be liable to pay any costs relating to the assignment
- That the assignment shall be to a company which complies with all requirements of the IT / ITES park.
- That the Lessee shall in no manner profit from such an assignment.

22. INDEMNITY

22.1. The Lessor shall indemnify and keep indemnified saved and harmless, the Lessee against any actual , losses, and damages (other than consequential and direct and indirect business losses) that the Lessee may suffer, in the event the Lessee in any way is prevented from enjoying the Demised Premises peacefully and freely due to any defect in title of the Lessor to the Demised Premises, and/or construction of the Demised Premises.

22.2. The Lessee hereby indemnify and shall always keep indemnified saved and harmless the Lessor against any actual , losses, and damages (other than consequential and direct and indirect business losses) that the Lessor may suffer as a consequence of any act or omission by the Lessee arising out of the business carried out or intended to be carried on by the Lessee from the Demised Premises.

23. NOTICE

Any notice/correspondence sent under this Deed by any Party to the other Party shall be deemed to be validly served if the same is sent by registered post acknowledgment due or Hand Delivery or by Courier, duly acknowledged at the respective address of the parties herein below mentioned:

LESSOR:

M/S. FAERY ESTATES PRIVATE LIMITED
70 NAGINDAS MASTER ROAD, MUMBAI - 400 023
Attention: Regional Head - South

LESSEE:

M/S. ATHENA HEALTH TECHNOLOCY PRIVATE LIMITED
Building 3B, Floor 7, RMZ Millenia Tech Park, 143, Dr MGR Road, Perungudi, Chennai - 600096
Attention: Director

24. SEVERABILITY

If any provision of this Deed is held to be invalid, illegal or unenforceable, such a provision shall be deemed amended or deleted to the extent necessary to conform to the applicable law and the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

25. FORCE MAJEURE

Neither party shall be liable for its failure to perform or fulfill any of its obligations to the extent that its performance is delayed or prevented, in whole or in part, due to: acts of God; floods; cyclones; earthquakes; fires; wars; riots; sabotage; orders of governmental or other statutory authorities; national emergency; or any other similar causes beyond the reasonable control of the party affected ("Force Majeure").

26. AUTHORISED SIGNATORIES

The signatories to this Deed personally covenant that they are each duly authorized to execute this Deed on behalf of the respective party whom they represent.

27. MISCELLANEOUS PROVISION

This Deed constitutes the entire agreement between the Parties and revokes and supersedes all previous discussions, correspondence, heads of terms, agreements between the Parties, if any, concerning the matters covered herein whether written, oral or implied. This Deed shall not be changed, amended or modified except by written amendment mutually agreed to between the Parties.

28. LIMITATION OF LIABILITY

Neither Party herein shall be liable to the other for any incidental, consequential, penal and exemplary or like damages (including loss of profit or business or any action of tort)

29. RIGHT OF FIRST REFUSAL

At any time during the Lease Term, the Lessor shall first offer Lessee, the lease of space, admeasuring a minimum of 18500 (Eighteen thousand five hundred only) square feet on the ninth floor of Module 2 in Building A as and when and every time that it may become available for lease at the rent and on the terms and conditions as the Lessor may deem fit. The Lessor shall provide the Lessee, written notice of such availability of space to be offered to be given on lease to the Lessee. If the Lessee does not accept such offer by the Lessor, within 15 (fifteen) working) days of receipt of such notice, the Lessor is free to offer such space to any third party. In the event the Lessee exercises the option to lease the above said additional space, then the Parties shall enter into separate and definitive agreements on mutually agreed terms and conditions to give effect to such lease.

30. RENEWAL MECHANISM

30.1. The Lessee shall be entitled to renew the lease of the Demised Premises for 2 (two) additional terms of three (3) years each. The Lessee shall inform the Lessor in writing of its intention, if any, to renew the lease herein, 3 (three) months prior to the Lease Expiry Date and this lease shall be renewed thereafter subject to the execution and registration of a fresh lease deed in respect of the Demised Premises on the expiry of the Lease Term, on the same terms and conditions as stated herein for the extended terms , except that there shall be an escalation of 15 % (fifteen percent) on the last paid Warm Shell Lease Rent (as defined in clause 5 herein) for the demised premises and a proportionate and corresponding 15% (fifteen percent) increase in the Interest Free Refundable Security Deposit to ensure that at all times, the Interest Free Security Deposit shall be equivalent to 4 (four) months Warm Shell Lease Rent.

If the Lessee fails to inform the Lessor of its intention to extend the Lease for of 3 months prior to the Lease Expiry Date, the Lessor shall inform the Lessee in writing reminding them of the expiry of the Lease Term, two months prior to the Lease Expiry Date. In the event of renewal of this lease deed, the Parties shall execute fresh lease deed immediately on expiry of the lease terms and register such deeds within 30 (thirty) working days of the Lease Expiry Date or within such time as may be mutually agreed upon by the Parties.

30.2. In the event that the Lessee fails to inform the Lessor in writing of its intention, if any, to renew the lease herein, either on their own account, 3 (three) months prior to the Lease expiry date , or in response to the Lessor’s reminder, prior to the Lease Expiry Date and/or in the event the Lessee fails to execute and register such fresh lease deed mentioned in Clause 30.1 herein, the Lessor shall have the sole discretion to agree to renew the Lease Term.

31. GOVERNING LAWS

31.1 This Deed and the rights and duties of the Parties arising out of this Deed shall be governed by and construed in accordance with the Laws of India and only the competent courts at Chennai shall have jurisdiction in all matters arising out of arbitration below.

31.2 Any dispute or difference between the Parties hereto with regard to this Deed and all connected and related matters thereto shall be discussed and settled amicably. In the event of failure to resolve the disputes or differences amicably, all such disputes or differences whatsoever shall be referred to Arbitration to be conducted by a Sole Arbitrator to be appointed jointly by the Lessee and the Lessor. In the event that the Lessee and the Lessor fail to agree on the Sole Arbitrator, the court of competent jurisdiction shall appoint the Sole Arbitrator on an application made by either party. The Arbitration proceedings shall be conducted in accordance with the provisions of the Arbitration and Conciliation Act, 1996 or any statutory modification or enactment thereof. The Venue of Arbitration shall be Chennai. The language of arbitration shall be English. The award so passed by the Sole Arbitrator shall be final and binding on the Parties.

31.3. Pending the final decision of a dispute/claim or until the Arbitral Award is passed, the Parties shall continue to perform all their obligations under this Deed, unless any order to the contrary has been passed by the Arbitral Tribunal or any Court of Law. The expenses of the proceedings and the fees of the Arbitral Tribunal shall be borne by the Parties in equal proportions unless otherwise directed in the Arbitral Award.

31. Subject to the terms and conditions of this Deed, each of the Parties hereto will use all reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary to fulfill its obligations under this Deed.

32. This Deed is executed in two (2) counterparts. The Lessor shall retain one set and the Lessee shall retain the second set.

IN WITNESS WHEREOF the Parties hereto have set their respective hands and seal to these presents on the day, month and year first above mentioned

SCHEDULE A

All that piece and parcel of land bearing Survey Nos. 36/17, 227/1 A, 227/ 1B, 227/ 2A 1, 227/2A 2 228/1A 1A, 228/1A 1C ad measuring 12.5 acres, bearing Plot No. 40, situated at MGR Salai (Veeranam Road), Kandanchavadi, Perungudi, Chennai - 600 096, within the registration district of Chennai South and registration sub-district of Neelankarai, bounded on all four sides as follows:

To the East: MGR Salai (Veeranam Road)

To the West: Monitoring Station

To the North: RMZ Millenia Building

To the South: Anna Nedunchalai

SCHEDULE B (Property leased by this document in favor of Lessee)

SIGNED and DELIVERED for and on behalf of Module 3 & 4, having a built up floor space of 37,506 (Thirty Seven Thousand Five Hundred and Six) sq ft situated in SP Infocity, Ninth Floor, Module 3 & 4, Block A, along with 37 (Thirty Seven) car parking spaces and 74 (Seventy Four) two wheeler parking spaces free of cost.

M/s. Faery Estates Private Limited, LESSOR aforesaid,

by its Authorized Signatory Mr. Jair Dsouza

For FAERY ESTATES PVT. LTD

/s/ Jair Dsouza

In the presence of witness:

1. Mr. Ram Kiran Dhulipala

s/o D.S. Rao, B-408, TUH Park Villa,

Thoraipakkam, Chennai - 96

/s/ Kiran

SIGNED and DELIVERED for and on behalf of

M/s. Athena Health Technologies Private Limited, LESSEE aforesaid,

by its Authorized Signatory:

Mr. Hari Krishnan Pratap

For athenahealth Technology Private Limited

/s/ Hari Krishnan Pratap

In the presence of witness:

1. Mr. Jayachandran Selvam

/s/ Jayachandran Selvam

ANNEXURE A – PART I – FLOOR PLAN

ANNEXURE A – PART II – AREA STATEMENT

Level 9

Summary of components	Module 3 in sq ft	Module 4 in sq ft	Total Area in sq ft
Office Area	16552	9221	25,773
AHU rooms	811	281	1,092
Electrical rooms	324	324	648
Toilets	698	714	1,412
Refuge Area	167	162	329
Exclusive usable area	18552	10703	29,255
Common Area	5232	3019	8,251
Billable area	23784	13722	**37,506**

ANNEXURE A – PART III – WARM SHELL SPECIFICATION

Parameters	Lessor's scope of work	Lessee's scope of work
Civil	• Bare cement plastered shell in office area with form finished ceiling including columns and drop panels. • AHU walls will be constructed and terminated at 2.90 meters from the floor. • Screeded floor of up to 40 mm. • Perimeter wall between module 2 and 3 • All interior related furnishing work including waterproofing and furnishing of exclusive toilets meant for the Lessee	
Electrical	• A dedicated 110/ 110KV substation is being provided for the entire project. • Diesel generator sets of equivalent capacity are being provided to generate 100 % power back up. • All cable and bus ducts shall be terminated at the rising mains. • Individual floor panels shall be provided for power, lighting and air handling units - one each per floor.	Electrical cabling and connectivity.
Heat Ventilation and Air conditioning	• Common chillers will be provided to cater to office load @ 275 sft/ TR in the office area portion (not including common areas, balconies and passages) of the leased premises. Chilled water pipes will be connected to the AHU's allotted to the Lessee's units. • Common heat recovery wheels will be provided. • Acoustic insulation will be done on the internal walls of the AHU room. • Fresh air and exhaust system for toilets.	Internal ducting and other fitments in the office area.

	• Acoustic insulation up to 2.90 m in the AHU room will be provided by the Lessor after the completion of mouth connection by the Lessee. • Common tap off point will be provided for the fresh air exhaust.	
Fire Protection Services	• Hydrant shall be provided with hose reel and hydrant valve in every lift lobby. • Butterfly valve will be provided at the tap off point • One level of sprinklers (upright)	All work related to Fire Protection Systems in the low side, like down right sprinklers, smoke detectors and alarms.
Plumbing	• All water lines and drainage lines shall be terminated at the rising mains. • Water lines shall be of two risers - one for the domestic water and the other for treated water for flushing purposes, terminated with a valve at the shaft. • Hydro-pneumatic pump sets of required capacities shall be installed (for base building) for water supply to the tenants wash rooms. • Soil and waste lines shall be terminated at the shaft at floor level.	
Other services	• Common shafts are provided for networking and IBMS, with doors for access. • External cable ducts are provided from the main gate to the basements, for the ISP service provider to route the cable up to the point of service. • Designated locations have been identified for locating outdoor HVAC units (Split and precision) • Common lifts.	• Statutory approvals from CEIG • Internet and voice connectivity to the premises through respective service providers. • Hardware like servers, UPS, computers, telephones, fax machines.

- Pathway of entry for fiber optic cables to the building from the main entrance shall be provided, with pipe laid.
- Either a dedicated shaft or a demarcated common shaft shall be provided for the purpose of copper piping works.
- All calibrated meters for HVAC, Energy, power back up and water

ANNEXURE B – WARM SHELL LEASE RENT PAYMENT SCHEDULE

Sl #	Lease month	Year	Leased Area in sqft	Rent psft in INR	Monthly Rent
1	1st Nov - 30th Nov	2011			Rent free
2	1st Dec - 31st Dec	2011			Rent free
3	January	2012	37,506	Rs. 34	Rs.1,275,204
4	February	2012	37,506	Rs. 34	Rs.1,275,204
5	March	2012	37,506	Rs. 34	Rs.1,275,204
6	April	2012	37,506	Rs. 34	Rs.1,275,204
7	May	2012	37,506	Rs. 34	Rs.1,275,204
8	June	2012	37,506	Rs. 34	Rs.1,275,204
9	July	2012	37,506	Rs. 34	Rs.1,275,204
10	August	2012	37,506	Rs. 34	Rs.1,275,204
11	September	2012	37,506	Rs. 34	Rs.1,275,204
12	October	2012	37,506	Rs. 34	Rs.1,275,204
13	November	2012	37,506	Rs. 34	Rs.1,275,204
14	December	2012	37,506	Rs. 34	Rs.1,275,204
15	January	2013	37,506	Rs. 34	Rs.1,275,204
16	February	2013	37,506	Rs. 34	Rs.1,275,204
17	March	2013	37,506	Rs. 34	Rs.1,275,204
18	April	2013	37,506	Rs. 34	Rs.1,275,204
19	May	2013	37,506	Rs. 34	Rs.1,275,204
20	June	2013	37,506	Rs. 34	Rs.1,275,204
21	July	2013	37,506	Rs. 34	Rs.1,275,204
22	August	2013	37,506	Rs. 34	Rs.1,275,204
23	September	2013	37,506	Rs. 34	Rs.1,275,204
24	October	2013	37,506	Rs. 34	Rs.1,275,204
25	November	2013	37,506	Rs. 34	Rs.1,275,204
26	December	2013	37,506	Rs. 34	Rs.1,275,204
27	January	2014	37,506	Rs. 34	Rs.1,275,204
28	February	2014	37,506	Rs. 34	Rs.1,275,204
29	March	2014	37,506	Rs. 34	Rs.1,275,204
30	April	2014	37,506	Rs. 34	Rs.1,275,204
31	May	2014	37,506	Rs. 34	Rs.1,275,204
32	June	2014	37,506	Rs. 34	Rs.1,275,204
33	July	2014	37,506	Rs. 34	Rs.1,275,204
34	August	2014	37,506	Rs. 34	Rs.1,275,204
35	September	2014	37,506	Rs. 34	Rs.1,275,204
36	October	2014	37,506	Rs. 34	Rs.1,275,204

Gross Rent for the lease period	Rs. 43,356,936
Security deposit	Rs. 5,100,816
Total Rent + deposit for the lease period	**Rs. 46,970,014**

ANNEXURE C – CAR PARKING LAY OUT PLAN

Exhibit 21.1

Subsidiaries of Registrant

Name	Jurisdiction of Organization
Anodyne Health Partners, Inc.	Delaware
athena Point Lookout, LLC	Maine
athenahealth MA, Inc.	Massachusetts
athenahealth Security Corporation	Massachusetts
athenahealth Technology Private Limited	India
Proxsys LLC	Alabama

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-146340 and 333-172619 on Form S-8 of our reports dated February 16, 2012, relating to the financial statements of athenahealth, Inc. and subsidiaries and the effectiveness of athenahealth, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K of athenahealth, Inc. for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
February 16, 2012

EXHIBIT 31.1

Certification

I, Jonathan Bush, certify that:

1. I have reviewed this Annual Report on Form 10-K of athenahealth, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 16, 2012

/s/ Jonathan Bush

Chief Executive Officer

EXHIBIT 31.2

Certification

I, Timothy M. Adams, certify that:

1. I have reviewed this Annual Report on Form 10-K of athenahealth, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 16, 2012

/s/ Timothy M. Adams
Chief Financial Officer

EXHIBIT 32.1

The following certification is being made to the Securities and Exchange Commission solely for purposes of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). This certification is not deemed a part of the Report, nor is it deemed to be "filed" for any purpose whatsoever.

In accordance with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 USC 1350), each of the undersigned hereby certifies that:

(i) this Annual Report on Form 10-K for the year ended December 31, 2011, which this statement accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(ii) the information contained in this Annual Report on Form 10-K for the year ended December 31, 2011, fairly presents, in all material respects, the financial condition and results of operations of athenahealth, Inc.

Dated as of this 16th day of February, 2012.

/s/ JONATHAN BUSH
Jonathan Bush
Chief Executive Officer

/s/ TIMOTHY M. ADAMS
Timothy M. Adams
Chief Financial Officer