

ATHENAHEALTH INC
Form DEF 14A
April 30, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under § 240.14a-12

athenahealth, Inc.
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule
 - (3) 0-11
(set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials.
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by the registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

Table of Contents

April 30, 2014

Dear Shareholder:

You are cordially invited to attend the 2014 Annual Meeting of Shareholders of athenahealth, Inc. to be held on Monday, June 9, 2014, at 5:00 p.m. Eastern Time, at our headquarters at 400 North Beacon Street, Watertown, Massachusetts 02472. Directions to our headquarters can be found on the last page of the Proxy Statement.

Pursuant to the Securities and Exchange Commission rules that allow issuers to furnish proxy materials to shareholders over the Internet, we are posting the proxy materials on the Internet and delivering a notice of the Internet availability of the proxy materials. This delivery process will allow us to provide shareholders with the information they need, while lowering the costs of delivery and reducing the environmental impact of the Annual Meeting. On or about April 30, 2014, we will begin mailing to our shareholders a Notice of Internet Availability containing instructions on how to access or request a copy of our Proxy Statement for the 2014 Annual Meeting of Shareholders and our Annual Report on Form 10-K for the year ended December 31, 2013.

The Notice of 2014 Annual Meeting of Shareholders and the Proxy Statement contain details of the business to be conducted at the Annual Meeting.

Whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the meeting. Therefore, I urge you to promptly vote by submitting your proxy via the Internet at the address listed on the proxy card or by signing, dating, and returning the enclosed proxy card in the enclosed envelope. If you decide to attend the Annual Meeting, you will be able to vote in person, even if you have previously submitted your proxy. On behalf of the Board of Directors, I would like to express our appreciation for your continued interest in the affairs of athenahealth, Inc. I look forward to greeting as many of our shareholders as possible at the Annual Meeting.

Sincerely,

Jonathan Bush
Chief Executive Officer, President, and Chairman of the
Board of Directors

Table of Contents

athenahealth, Inc.

NOTICE OF 2014 ANNUAL MEETING OF SHAREHOLDERS

- Date and Time: Monday, June 9, 2014
5:00 p.m. Eastern Time
athenahealth, Inc. headquarters
- Place: 400 North Beacon Street
Watertown, MA 02472
- Items of Business: 1. Elect three directors, Amy Abernethy, Jonathan Bush, and Brandon Hull, to serve as Class I directors for a term of three years and until their successors are duly elected and qualified, subject to their earlier resignation or removal;
2. Ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014;
3. Hold an advisory vote to approve the compensation of our named executive officers; and
4. Transact other business as may properly come before the meeting.
- Record Date: You are entitled to vote only if you were a shareholder as of the close of business on April 15, 2014.
- Voting: Your vote is important. Whether or not you are able to attend the meeting in person, it is important that your shares be represented. To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the meeting. For instructions on how to vote your shares, please refer to the instructions on the Notice of Internet Availability of Proxy Materials you received in the mail, the section titled "How to Vote" beginning on page 1 of this Proxy Statement or, if you requested to receive printed proxy materials, your enclosed proxy card.

By Order of the Board of Directors,

Jonathan Bush
Chief Executive Officer, President, and Chairman of the
Board of Directors

In this Proxy Statement, the terms "athenahealth," "we," "us," and "our" refer to athenahealth, Inc. The mailing address of our principal executive offices is athenahealth, Inc., 311 Arsenal Street, Watertown, MA 02472.

athenahealth, Inc.
311 Arsenal Street
Watertown, Massachusetts
April 30, 2014

Table of Contents

TABLE OF CONTENTS

<u>GENERAL INFORMATION</u>	<u>1</u>
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	<u>3</u>
<u>DIRECTORS AND EXECUTIVE OFFICERS</u>	<u>5</u>
<u>RELATED PERSON TRANSACTIONS</u>	<u>7</u>
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	<u>8</u>
<u>CORPORATE GOVERNANCE</u>	<u>8</u>
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	<u>15</u>
<u>Executive Summary</u>	<u>15</u>
<u>Pay for Performance</u>	<u>16</u>
<u>Executive Compensation Policies and Practices</u>	<u>17</u>
<u>Roles in the Compensation-Setting Process</u>	<u>17</u>
<u>Components of Executive Compensation</u>	<u>18</u>
<u>Peer Group</u>	<u>19</u>
<u>Setting Compensation</u>	<u>20</u>
<u>Base Salary</u>	<u>21</u>
<u>Cash Bonus</u>	<u>21</u>
<u>Equity</u>	<u>25</u>
<u>Other Compensation Policies</u>	<u>28</u>
<u>Compensation Committee Interlocks and Insider Participation</u>	<u>31</u>
<u>Compensation Committee Report</u>	<u>31</u>
<u>COMPENSATION TABLES</u>	<u>32</u>
<u>Summary Compensation</u>	<u>32</u>
<u>Grants of Plan-Based Awards</u>	<u>33</u>
<u>Outstanding Equity Awards at Fiscal Year End</u>	<u>33</u>
<u>Option Exercises and Stock Vested</u>	<u>36</u>
<u>Pension Benefits</u>	<u>37</u>
<u>Nonqualified Deferred Compensation</u>	<u>37</u>
<u>Potential Payments Upon Termination or Change-in-Control</u>	<u>37</u>
<u>Director Compensation</u>	<u>39</u>
<u>Limitation of Liability and Indemnification Agreements</u>	<u>40</u>
<u>Equity Compensation Plan Information</u>	<u>41</u>
<u>OVERVIEW OF PROPOSALS</u>	<u>41</u>
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	<u>42</u>
<u>PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS</u>	<u>43</u>
<u>Audit Committee Report</u>	<u>44</u>
<u>PROPOSAL 3 ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	<u>45</u>
<u>INCORPORATION BY REFERENCE</u>	<u>45</u>
<u>HOUSEHOLDING OF PROXY MATERIALS</u>	<u>46</u>

Table of Contents

PROXY STATEMENT

GENERAL INFORMATION

Our board of directors (the “Board of Directors”) has made this Proxy Statement and related materials available to you on the Internet, or at your request has delivered printed versions to you by mail, in connection with the Board of Directors’ solicitation of proxies for our 2014 Annual Meeting of Shareholders (the “Annual Meeting”).

Internet Availability of Proxy Materials

We are providing access to our proxy materials over the Internet. On April 30, 2014, we mailed a Notice of Internet Availability of Proxy Materials (the “Notice”) to shareholders, unless they requested a printed copy of proxy materials. The Notice contains instructions on how to access our proxy materials and how to vote. If you would like to receive a paper or e-mail copy of our proxy materials, please follow the instructions in the Notice. If you requested printed versions of these materials by mail, they will also include a proxy card for the Annual Meeting. A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, excluding exhibits, may be obtained by shareholders, without charge, by written request to the attention of our Secretary at 311 Arsenal Street, Watertown, MA 02472.

Who May Vote

You are entitled to vote at the Annual Meeting only if you owned shares of athenahealth common stock at the close of business on April 15, 2014, which is referred to as the “record date.” Each share entitles its owner to one vote.

Quorum

The holders of a majority of shares entitled to vote, present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. Shares that are voted “abstain” or “withheld” and broker “non-votes” are counted as present for purposes of determining whether a quorum is present at the Annual Meeting. On April 15, 2014, the record date, there were 37,781,805 shares of athenahealth common stock outstanding. No shares of athenahealth preferred stock were outstanding on the record date.

How to Vote

Shareholders of record (e.g., shareholders who hold their shares in their own name) can vote in the following ways:

• **Via Internet:** You can vote online at: www.proxyvote.com by following the instructions in the Notice.

• **By Phone:** You can vote by telephone by following the instructions in the Notice.

• **By Mail:** If you requested printed copies of proxy materials, you can vote by mailing your proxy as described in the proxy materials.

• **In Person:** Attend the Annual Meeting, or send a person with an appropriate proxy, to vote by ballot.

If your shares are held in “street name” (e.g., the name of a bank, broker, trustee, or nominee), you will receive instructions from the shareholder of record that you must follow in order for your shares to be voted. If you wish to vote in person at the Annual Meeting, you must obtain a legal proxy from the bank, broker, trustee, or nominee that holds your shares.

If you have any questions about voting, please call Okapi Partners LLC at (877) 629-6356.

Revoking a Proxy

If you are a shareholder of record, you may revoke your proxy by (1) entering a new vote over the Internet, by telephone, or by mail before the Annual Meeting, (2) providing a written notice of revocation to our Secretary prior to the taking of the vote at the Annual Meeting, or (3) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself revoke a proxy). Any written notice of revocation or subsequent proxy card should be hand delivered to our Secretary or sent to our principal executive offices, athenahealth, Inc., 311 Arsenal Street, Watertown, MA 02472, Attention: Secretary. If a broker, bank, or other nominee holds your shares, you must contact them in order to find out how to change your vote.

Required Vote

Under our By-laws, any proposal other than an election of directors is decided by a majority of the votes properly cast for and against such proposal, except where a larger vote is required by law or by our Certificate of Incorporation or By-laws. Our majority voting policy included in our corporate governance guidelines requires that

Table of Contents

each director nominee in an uncontested election must be elected by a majority of the votes cast in that election. The elections for the Annual Meeting are uncontested elections and, accordingly, each director nominee must be elected by a majority of votes cast in that election. Abstentions and broker “non-votes” are not included in the tabulation of the voting results on any such proposal and, therefore, do not have the effect of votes in opposition to such proposals. A broker “non-vote” occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

How Shares Will Be Voted

Your shares will be voted in accordance with your instructions. If you submit a proxy without giving voting instructions, your shares will be voted in the manner recommended by the Board of Directors on all matters presented in this Proxy Statement, and as the persons named as proxies may determine in their discretion with respect to any other matters properly presented at the Annual Meeting.

If your shares are held in “street name” by a brokerage firm, your brokerage firm is required to vote your shares according to your instructions. If you do not give instructions to your brokerage firm, the brokerage firm will still be able to vote your shares with respect to certain “discretionary” items, but will not be allowed to vote your shares with respect to “non-discretionary” items. Proposals 1 and 3 are “non-discretionary” items. If you do not instruct your broker how to vote with respect to those proposals, your broker may not vote for those proposals, and those votes will be counted as broker “non-votes.” Proposal 2 is considered to be a discretionary item, and your brokerage firm will be able to vote on this proposal even if it does not receive instructions from you.

Other Matters

If any other matters are properly presented for consideration at the Annual Meeting, including, among other things, consideration of a motion to adjourn the Annual Meeting to another time or place (including, without limitation, for the purpose of soliciting additional proxies), the persons named in the proxy card and acting thereunder will have discretion to vote on those matters in accordance with their best judgment. We do not currently anticipate that any other matters will be raised at the Annual Meeting.

Expenses of Solicitation

Our Board of Directors is making this solicitation and we will pay the entire cost of preparing and distributing the Notice and these proxy materials and soliciting votes. If you choose to access the proxy materials or vote over the Internet, you are responsible for any Internet access charges that you may incur. Our officers and employees may, without compensation other than their regular compensation, solicit proxies through further mailings, personal conversations, facsimile transmissions, e-mails, or otherwise. We have engaged Okapi Partners LLC to assist in the solicitation of proxies and provide related advice and informational support, for a services fee and the reimbursement of customary disbursements that are not expected to exceed \$13,500 in the aggregate.

Procedure for Submitting Shareholder Proposals

Shareholder proposals intended to be presented at the next annual meeting of our shareholders must satisfy the requirements of the notice procedures set forth in our By-laws. To be timely for our next annual meeting of shareholders, any such proposal must be delivered in writing to our Secretary at our principal executive offices between the close of business on February 9, 2015, and March 11, 2015. If the date of the next annual meeting of the shareholders is scheduled to take place before May 10, 2015, or after August 8, 2015, notice by the shareholder must be delivered no earlier than the close of business on the 120th day prior to such annual meeting and no later than the close of business on the later of (1) the 90th day prior to such annual meeting or (2) the 10th day following the day on which public announcement of the date of such meeting is first made.

In addition, any shareholder proposal intended to be included in the Proxy Statement for the next annual meeting of our shareholders must also satisfy the Securities and Exchange Commission (the “SEC”) regulations under Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and be received not later than December 31, 2014. If the date of the annual meeting is moved by more than 30 days from the date contemplated at the time of the previous year’s Proxy Statement, then notice must be received within a reasonable time before we begin to print and send proxy materials. If that happens, we will publicly announce the deadline for submitting a proposal in a press release or in a document filed with the SEC.

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of our common stock as of April 15, 2014, for: each person known to us to be the beneficial owner of more than five percent of our outstanding common stock; each of our named executive officers; each of our directors and nominees; and all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as noted by footnote, and subject to community property laws where applicable, we believe based on the information provided to us that the persons and entities named in the table below have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

The table lists applicable percentage ownership based on 37,781,805 shares of our common stock outstanding as of April 15, 2014. The number of shares beneficially owned includes shares of our common stock that each person has the right to acquire within 60 days of April 15, 2014, including upon the exercise of stock options or the vesting of restricted stock units (“RSUs”). These stock options and RSUs shall be deemed to be outstanding for the purpose of computing the percentage of outstanding shares of our common stock owned by such person but shall not be deemed to be outstanding for the purpose of computing the percentage of outstanding shares of our common stock owned by any other person.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned	Percent of Class	
Morgan Stanley(2) 1585 Broadway New York, NY 10036	4,657,096	12.33	%
FMR LLC(3) 245 Summer Street Boston, MA 02210	4,339,292	11.49	%
Sands Capital Management, LLC(4) 1101 Wilson Blvd., Suite 2300 Arlington, VA 22209	4,000,445	10.59	%
Artisan Partners Limited Partnership(5) 875 East Wisconsin Avenue, Suite 800 Milwaukee, WI 53202	2,873,262	7.60	%
Janus Capital Management LLC(6) 151 Detroit Street Denver, CO 80206	2,688,958	7.12	%
Capital Research Global Investors(7) 333 South Hope Street Los Angeles, CA 90071	2,478,099	6.56	%
T. Rowe Price Associates, Inc.(8) 100 E. Pratt Street Baltimore, MD 21202	2,217,315	5.87	%
The Vanguard Group(9) 100 Vanguard Blvd. Malvern, PA 19355	2,199,511	5.82	%
BlackRock, Inc.(10) 40 East 52nd Street New York, NY 10022	2,112,384	5.59	%
Jonathan Bush(11)	826,290	2.16	%
Timothy M. Adams(12)	60,923	*	
Rob Cosinuke(13)	98,857	*	

Edgar Filing: ATHENAHEALTH INC - Form DEF 14A

Stephen N. Kahane(14)	34,200	*	
Ed Park(15)	19,491	*	
Amy Abernethy(16)	1,246	*	
Brandon Hull(17)	27,495	*	
Dev Ittycheria(18)	8,574	*	
John A. Kane(19)	54,803	*	
Jacqueline D. Kosecoff(20)	4,076	*	
James L. Mann(21)	43,582	*	
David E. Robinson(22)	102,058	*	
All directors and executive officers as a group (13 persons)(23)	1,296,709	3.36	%

* Represents beneficial ownership of less than one percent of outstanding common stock.

3

Table of Contents

- (1) Unless otherwise indicated, the address for each beneficial owner is c/o athenahealth, Inc., 311 Arsenal Street, Watertown, MA 02472.
Based solely on a Schedule 13G/A filed on February 11, 2014, by Morgan Stanley and Morgan Stanley Investment Management, Inc. reporting beneficial ownership as of December 31, 2013. The entities reported the following beneficial ownership: (i) 4,657,096 shares beneficially owned by Morgan Stanley, with sole voting power over
- (2) 4,608,747 shares and sole dispositive power over all of the shares, and (ii) 4,657,096 shares beneficially owned by Morgan Stanley Investment Management, Inc., with sole voting power over 4,608,747 shares and sole dispositive power over all of the shares.
Based solely on a Schedule 13G/A filed on February 14, 2014, by FMR LLC and Edward C. Johnson 3d, the Chairman of FMR LLC, reporting beneficial ownership as of December 31, 2013. Fidelity Management & Research Company (“Fidelity”), a wholly owned subsidiary of FMR LLC, is the beneficial owner of
- (3) 4,042,049 shares as a result of serving as investment adviser to various investment companies that own such shares. Mr. Johnson and FMR LLC, through its control of Fidelity, each has the sole power to dispose of the shares owned by these investment companies but neither Mr. Johnson nor FMR LLC has the sole power to vote or direct the voting of those shares, which power resides with the investment companies’ Boards of Trustees.
Based solely on a Schedule 13G/A filed on February 7, 2014, by Sands Capital Management, LLC, reporting
- (4) beneficial ownership as of January 31, 2014. The shareholder reports sole voting power over 3,085,968 shares and sole dispositive power over all of the shares.
Based solely on a Schedule 13G/A filed on March 24, 2014, by Artisan Partners Limited Partnership (“APLP”), Artisan Investments GP LLC, Artisan Partners Holdings LP, Artisan Partners Asset Management Inc., and Artisan Partner Funds, Inc. (“Artisan Funds”) reporting beneficial ownership as of March 12, 2014. This Schedule 13G/A
- (5) reports that the shares have been acquired on behalf of discretionary clients of APLP, with APLP holding 2,873,262 shares, including 1,653,569 shares on behalf of Artisan Funds. The shareholders reported that they have shared voting power over 2,650,671 shares and shared dispositive power over all of the shares.
- (6) Based solely on a Schedule 13G/A filed on February 14, 2014, by Janus Capital Management LLC reporting beneficial ownership as of December 31, 2013.
- (7) Based solely on a Schedule 13G/A filed on February 13, 2014, by Capital Research Global Investors reporting beneficial ownership as of December 31, 2013.
Based solely on a Schedule 13G/A filed on February 7, 2014, by T. Rowe Price Associates, Inc. reporting
- (8) beneficial ownership as of December 31, 2013. The shareholder reports sole voting power over 426,815 shares and sole dispositive power over all of the shares.
Based solely on a Schedule 13G/A filed on February 11, 2014, by The Vanguard Group reporting beneficial
- (9) ownership as of December 31, 2013. The shareholder reports sole voting power over 52,230 shares and sole dispositive power over 2,150,081 shares with shared dispositive power over 49,430 shares.
Based solely on a Schedule 13G/A filed on January 28, 2014, by BlackRock, Inc. reporting beneficial ownership
- (10) as of December 31, 2013. The shareholder reports sole voting power over 2,005,542 shares and sole dispositive power over all of the shares.
Includes 515,056 shares issuable to Mr. Bush upon exercise of stock options, 12,492 of which are subject to a pre-existing divorce settlement agreement with his former wife that covers the disposition of the options for her benefit. Excludes 111,994 shares held by the Bush 2004 Gift Trust for the benefit of certain of Mr. Bush’s
- (11) children, for which trust Carl B. Byers and Stephanie Seldon serve as co-trustees and who, acting together by unanimous consent, have the sole voting and dispositive power over such shares. Excludes 27,998 shares held by the Oscar W. Bush 2007 Gift Trust, the beneficiary of which is Mr. Bush’s child, for which trust Carl B. Byers serves as trustee and has sole voting and dispositive power over such shares.
- (12) Includes 40,000 shares issuable to Mr. Adams upon exercise of stock options.
- (13) Includes 69,250 shares issuable to Mr. Cosinuke upon exercise of stock options.
- (14) Includes 13,287 shares issuable to Dr. Kahane upon exercise of stock options.
- (15) Includes 10,000 shares issuable to Mr. Park upon exercise of stock options.
- (16) Includes 1,246 shares issuable to Dr. Abernethy upon vesting of RSUs.

- (17) Includes 19,642 shares issuable to Mr. Hull upon exercise of stock options and 2,058 shares upon vesting of RSUs.
- (18) Includes 2,058 shares issuable to Mr. Ittycheria upon vesting of RSUs.
- (19) Includes 49,812 shares issuable to Mr. Kane upon exercise of stock options and 2,058 shares upon vesting of RSUs.
- (20) Includes 2,058 shares issuable to Dr. Kosecoff upon vesting of RSUs.
Includes 41,524 shares held by the James L. Mann Living Revocable Trust (the "Mann Trust"), and 2,058 shares
- (21) issuable to the Mann Trust upon vesting of RSUs. Mr. Mann is the settlor and serves as trustee of the Mann Trust, and as such, he has sole voting and dispositive power over the shares held by the Mann Trust.
- (22) Includes 100,000 shares issuable to Mr. Robinson upon exercise of stock options and 2,058 shares upon vesting of RSUs.
- (23) Includes an aggregate of 817,047 shares issuable upon exercise of stock options and 13,594 shares upon vesting of RSUs held by our directors and executive officers.

Table of Contents**DIRECTORS AND EXECUTIVE OFFICERS**

The following table identifies our directors and executive officers and sets forth their current position(s) at athenahealth and their ages as of April 30, 2014.

Name	Age	Position
Jonathan Bush	45	Chief Executive Officer, President, and Chairman of the Board of Directors
Amy Abernethy	45	Director
Brandon Hull	53	Lead Director
Dev Ittycheria	47	Director
John A. Kane	61	Director
Jacqueline B. Kosecoff	64	Director
James L. Mann	80	Director
David E. Robinson	70	Director
Timothy M. Adams	54	Senior Vice President and Chief Financial Officer
Rob Cosinuke	53	Senior Vice President and Chief Marketing Officer
Stephen N. Kahane	56	President, Enterprise Services Group
Daniel H. Orenstein	44	Senior Vice President, General Counsel, and Secretary
Ed Park	39	Executive Vice President and Chief Operating Officer

Set forth below are the biographies of each director and executive officer, as well as a discussion of the particular experience, qualifications, attributes, and skills that led our Board of Directors to conclude that each person nominated to serve or currently serving on our Board of Directors should serve as a director. In addition to the information presented below, we believe that each director meets the minimum qualifications established by our nominating and corporate governance committee.

Jonathan Bush is our Chief Executive Officer (“CEO”), President, and Chairman of the Board of Directors. Mr. Bush co-founded athenahealth in 1997 and has been a director since our inception. Prior to joining us, Mr. Bush served as an EMT for the City of New Orleans, was trained as a medic in the U.S. Army, and worked as a management consultant with Booz Allen & Hamilton. Mr. Bush obtained a Bachelor of Arts in the College of Social Studies from Wesleyan University and an M.B.A. from Harvard Business School. As a founder of athenahealth, Mr. Bush has extensive knowledge of all aspects of our business, including our day-to-day operations. His history with us, combined with his business and leadership skills, led our Board of Directors to conclude that he should be nominated to serve as a director and as Chairman of the Board of Directors.

Amy Abernethy, M.D., Ph.D. has served as a member of our Board of Directors since October 2013. Dr. Abernethy is an internist and medical oncologist at Duke University Medical Center, where she is Director of the Duke Center for Learning Health Care and the Duke Cancer Care Research Program. She also holds the titles of tenured Associate Professor of Medicine and Nursing, and previously held a number of progressive faculty and clinical roles at Duke University and Flinders University of South Australia. Dr. Abernethy graduated from the University of Pennsylvania and Duke University School of Medicine. She also holds a PhD from Flinders University of South Australia. Dr. Abernethy’s expertise in the practice and teaching of oncology and internal medicine, and her experiences with big data, clinical research, technology within health care settings, health analytics, and her passion to improve the experience of health care for both patients and providers, led our Board of Directors to conclude that she should be nominated to serve as a director.

Brandon Hull has served as a member of our Board of Directors since 1999. Since October 1997, Mr. Hull has served as General Partner of Cardinal Partners, a venture capital firm that he co-founded that specializes in health care and life-sciences investments. From 1991 to 1997, Mr. Hull served as principal of the Edison Venture Fund. Mr. Hull serves on the board of directors of Awarepoint Corporation, CodeRyte, Inc., FluidNet Corporation, MDX Medical, Inc., and Replication Medical, Inc. Mr. Hull obtained his Bachelor of Arts from Wheaton College and his M.B.A. from The Wharton School at the University of Pennsylvania. Mr. Hull’s experience with health care services, health care information systems, and medical products and devices at Cardinal Partners, and on the boards of numerous health care and medical technology companies, led our Board of Directors to conclude that he should be nominated to

serve as a director.

Dev Ittycheria has served as a member of our Board of Directors since July 2010. Mr. Ittycheria is currently a Managing Director at OpenView Venture Partners. He previously was a Venture Partner at Greylock Partners from March 2012 to June 2013. He previously served as the Senior Vice President, President of the Enterprise Service Management of BMC Software, Inc. from November 2008 to February 2010 and as Senior Vice President, Strategy

5

Table of Contents

and Corporate Development from April 2008 to October 2008. Prior to working at BMC, Mr. Ittycheria was co-founder, President, CEO, and a director of BladeLogic, Inc. from August 2001 to April 2008, which was acquired by BMC in April 2008. He also serves as a director of Bazaarvoice, Inc. and AppDynamics, Inc. Mr. Ittycheria received a Bachelor of Science in Electrical Engineering from Rutgers University. Mr. Ittycheria's experience in building high-growth technology businesses that excel at acquiring customers, delivering financial results, and creating long-term sustainable value, together with his leadership ability, led our Board of Directors to conclude that he should serve as a director.

John A. Kane has served as a member of our Board of Directors since 2007. Mr. Kane served as Senior Vice President, Finance and Administration, Chief Financial Officer ("CFO"), and Treasurer of IDX Systems Corporation from May 2001 until it was acquired by GE Healthcare in 2006, and as the Vice President, Finance and Administration, CFO, and Treasurer of IDX from October 1984, when he joined IDX, until 2001. While at IDX, Mr. Kane guided the company through more than a dozen acquisitions and at various times managed the finance, facilities, legal, human resources, and information systems functions for the company. Previous to his employment with IDX, Mr. Kane worked as an audit manager at Ernst & Young LLP, in Boston. Mr. Kane serves as a director of several private organizations. He also served as a director of Merchants Bancshares, Inc. from 2005 to 2014 and Spheris, Inc. from 2007 to 2010. Since his retirement from IDX in 2006, Mr. Kane has not been employed on a full-time basis, and his principal occupations have consisted of the directorships mentioned in the preceding sentences. He earned a Bachelor of Science and Master of Accountancy from Brigham Young University. Mr. Kane's experience auditing financial statements at Ernst & Young LLP, directorships with other public companies, and experience as CFO of a health care software technology company led our Board of Directors to conclude that he should serve as a director. Our Board of Directors chose Mr. Kane to serve as a director and chairman of the audit committee because of his financial and accounting skills and experience related to auditing financial statements.

Jacqueline B. Kosecoff, Ph.D. has served as a member of our Board of Directors since June 2012. Dr. Kosecoff is a Managing Partner at Moriah Partners, LLC, a private equity firm investing in health care, security, and sport industries with a focus on software, content, and services. She also serves as a senior advisor to Warburg Pincus and is on the Executive Advisory Board of SAP America. Prior to this role, she served as a Senior Advisor from December 2011 to February 2012 at Optum, a leading information and technology-enabled health services business of UnitedHealth Group, consisting of OptumHealth, OptumInsight, and OptumRx and representing over 30,000 employees worldwide who focus on population health management, care delivery, and improving all of the clinical and operating elements of the health system. Dr. Kosecoff served as CEO of OptumRx, a leader in the delivery, clinical management and affordability of prescription medications and consumer health products, from 2007 to 2011 and CEO of Ovations Pharmacy Solutions Division, a UnitedHealth Group company, from 2005 to 2007. She has served as a consultant to the World Health Organization's Global Quality Assessment Programs, on the Institute of Medicine's Board of Health Care Services, the RAND Graduate School's Board of Governors, and on the board of directors of CareFusion Corporation, Sealed Air Corporation, and STERIS Corporation. Dr. Kosecoff served as a professor at the School of Medicine and Public Health at the University of California, Los Angeles (UCLA). Dr. Kosecoff holds a B.A. from UCLA, an M.S. in Applied Mathematics from Brown University, and a Ph.D. in Research Methods from UCLA. Dr. Kosecoff's experience as a seasoned health care executive and deep expertise in care coordination and data management led our Board of Directors to conclude that she should serve as a director.

James L. Mann has served as a member of our Board of Directors since 2006. Mr. Mann served as Chairman of the Board of Directors of SunGard Data Systems Inc. from 1987 to 2005 and as Director from 1983 to 2005 and from 2006 to the 2013. Mr. Mann served as SunGard's CEO from 1986 to 2002, President from 1986 to 2000, and Chief Operating Officer ("COO") from 1983 to 1985. From 2005 through August 2011, Mr. Mann was employed by SunGard in an advisory capacity. Mr. Mann previously served as President and COO of Bradford National Corp. Mr. Mann obtained a Bachelor of Science in Business Administration from Wichita State University. Mr. Mann's experience as CEO and COO of SunGard, including his skills in leading a company through rapid growth, acquisitions, and developing corporate strategy led our Board of Directors to conclude that he should serve as a director.

David E. Robinson has served as a member of our Board of Directors since January 2011. He served as our Executive Vice President and COO from February 2009 to July 2010 and as an executive advisor from July 2010 to

December 2010. Mr. Robinson served as the Executive Vice President of SunGard Data Systems Inc., a global leader in software and processing solutions for financial services, higher education, and the public sector, which position he held from 2002 to 2004. Mr. Robinson served as Senior Vice President of SunGard from 2000 to 2002, as a Group CEO of SunGard Investment Systems from 1997 to 2000, and as President of SunGard Investment Systems from 1993 to 1997. Mr. Robinson holds an M.B.A. from the University of Chicago, a Masters in Chemical Engineering from the University of Rochester, and a Bachelor of Science in Chemical Engineering from Carnegie

Table of Contents

Mellon University. Mr. Robinson's experience as our COO and leading technology organizations led our Board of Directors to conclude that he should serve as a director.

Timothy M. Adams has served as our Senior Vice President and CFO since January 2010. Prior to joining us, he served as Chief Investment Officer at Constitution Medical Investors, Inc., a private investment firm focused on health care-sector-related acquisitions and investments, as well as Senior Vice President of Corporate Strategy for Keystone Dental, Inc., a provider of dental health products and solutions. From November 2007 to April 2008, he served as the CFO, Senior Vice President, Treasurer, and Assistant Secretary of Orthofix International N.V., a diversified orthopedic products company. From 2004 to 2007, Mr. Adams served as CFO and Treasurer of Cytoc Corporation, a global medical device and diagnostics health company. He worked for seven years in the audit practice at Price Waterhouse and is a Certified Public Accountant. Mr. Adams obtained his Bachelor of Science from Murray State University and his M.B.A. from Boston University.

Rob Cosinuke has served as our Senior Vice President and Chief Marketing Officer since December 2007.

Mr. Cosinuke was a co-founder of Digitas, LLC in 1991. Digitas is a leading interactive and database marketing advertising agency and was acquired by Publicis Group SA in February of 2007. From 1991 to 2006, Mr. Cosinuke was employed by Digitas, most recently as President of Digitas, Boston. He also served as President of Global Capabilities, Digitas. Mr. Cosinuke has a Bachelor of Arts from Haverford College and an M.B.A. from Harvard Business School.

Stephen N. Kahane, M.D., M.S. has served as President of our Enterprise Services Group since February 2011.

Dr. Kahane's career spans more than 30 years across companies that have delivered health care IT and automation solutions for physician practices, hospitals, and integrated delivery networks. Prior to joining us, Dr. Kahane was CEO of AMICAS, Inc., an image and information management solutions company. Dr. Kahane's experience also includes roles as CEO of VitalWorks, CEO of Datamedic, and Medical Director and System Development Director of Information at Johns Hopkins Medical Institution. Dr. Kahane holds an M.S. in Computer Science from Johns Hopkins University and an M.D. from Emory University.

Daniel H. Orenstein has served as our Senior Vice President, General Counsel, and Secretary since July 2010. He served as Vice President, General Counsel, and Secretary from July 2008 to July 2010, Deputy General Counsel from 2006 to June 2008, and Chief Integrity Officer from 2005 to 2006. Prior to joining us, he practiced in the areas of corporate, intellectual property, and health care law with McDermott, Will & Emery and Goulston & Storrs in Boston and Powers, Pyles, Sutter & Verville in Washington, D.C. Mr. Orenstein obtained a Bachelor of Arts from Columbia University and a J.D. from the Georgetown University Law Center. He is an active member of the Health Information and Technology Practice Group of the American Health Lawyers Association.

Ed Park has served as our Executive Vice President and COO since July 2010. He served as our Chief Technology Officer from March 2007 to June 2010 and as Chief Software Architect from 1998 to March 2007. Mr. Park serves on the board of Castlight Health, Inc., Healthpoint Services Pvt Ltd, and Kyruus, Inc. Prior to joining us, Mr. Park was a consultant for Viant, Inc. Mr. Park obtained a Bachelor of Arts magna cum laude from Harvard College in Computer Science.

RELATED PERSON TRANSACTIONS

Policies for Approval of Related Person Transactions

Our Board of Directors has adopted a written policy that sets forth the policies and procedures to review and approve transactions, contracts, or other legal or business arrangements with directors, director nominees, executive officers, holders of more than five percent of our voting securities, and the immediate family members of any of these persons, each of which we refer to as a "related person." Our Board of Directors determined that our audit committee should administer the policy, since the audit committee also acts as our qualified legal compliance committee and as such oversees our regulatory compliance programs and procedures. Any amendments, modifications or supplements to the policy are recommended by our audit committee and subject to final approval by our Board of Directors.

Our policy requires that we create a list of related persons and all entities in which a related person is an employee, acts as a director or executive officer, or holds more than five percent of ownership interest, each such entity we refer to as a "related person affiliate." The list is updated at least annually and is maintained by our CFO. The list is made available, at the direction of our CFO, to appropriate regulatory, marketing, and operations (including finance)

employees and executives who are involved or familiar with the transactions, contracts, or other legal or business arrangements that we have entered into or propose to enter into from time to time with third parties. These personnel then cross-check the parties involved in any such transactions against the related person transaction list. If it is determined that we have entered into or are proposing to enter into any transaction or arrangement (including

7

Table of Contents

any modification or addition to an existing contract or arrangement) with a related person or related person affiliate, our CFO is notified.

Once notified, our CFO, together with legal counsel, will review the appropriate NASDAQ rules, SEC rules, our corporate governance guidelines and any other applicable rules and determine whether the contemplated transaction or arrangement requires the review or approval of the Board of Directors or any committee thereof. For example, under applicable NASDAQ Marketplace Rules, transactions between us and such persons in excess of \$120,000 must be reviewed by our audit committee or another independent body of our Board of Directors. In addition, our compensation committee charter requires that compensation arrangements with our executive officers be approved by our compensation committee. No transaction or arrangement with a related person or related person affiliate may be entered into unless the CFO has either (i) specifically confirmed that no further review or approval as described above is necessary or (ii) specifically confirmed that all requisite reviews and approvals necessary to enter into that transaction or arrangement have been obtained.

Our policy is intended to identify related person transactions prior to their consummation. However, if for any reason we enter into a transaction or arrangement without recognizing that such transaction or arrangement constituted a related party transaction, our CFO is notified. The procedure described above is then followed in order to determine whether (i) further review and ratification is necessary as described above or (ii) all requisite reviews and approvals necessary to enter into such transaction or arrangement have been obtained.

If our CFO determines that our Board of Directors or an independent committee thereof is required to review or approve (or ratify) a transaction as described above, that transaction will be presented to our Board of Directors or an appropriate committee, as the case may be, for review and approval. In the absence of any specific legal requirement that such transaction be reviewed or approved by our Board of Directors or a specific committee, it is expected that in most circumstances the transaction will be submitted to our audit committee.

In considering any related person transactions, our directors consider the facts and circumstances regarding such transaction, including, among other things, the amounts involved, the relationship of the related person with us, and the terms that would be available in a similar transaction with an unaffiliated third party. The directors also consider their fiduciary duties, our obligations under applicable securities law, including disclosure obligations and director independence rules, and other applicable law in evaluating any related person transaction.

Transactions with Related Persons

Based on a review of the transactions and arrangements between us and any related person or related person affiliate, we have determined that we were not a party to any transaction or arrangement in which any related person or related person affiliate has a direct or indirect material interest during the year ended December 31, 2013.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors and persons who beneficially own more than 10% of our outstanding common stock (collectively, "Reporting Persons") to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of such reports received or written representations from certain Reporting Persons during the fiscal year ended December 31, 2013, we believe that all Reporting Persons complied with all Section 16(a) reporting requirements except for late Form 4 filings made on behalf of each of our executive officers (other than Mr. Bush) covering the annual grant of RSUs and withholding of shares to cover tax obligations on March 1, 2013, which reports were filed on March 7, 2013.

CORPORATE GOVERNANCE

Board Independence

The Board of Directors has determined that each of the directors, except for Mr. Bush, as CEO, has no relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and is "independent" within the meaning of our director independence standards and the director independence standards of NASDAQ and the SEC. Furthermore, the Board of Directors has determined that each member of each of the committees of the Board of Directors is independent within the meaning of NASDAQ's, the SEC's, and our applicable committee independence standards, including Rule 10a-3(b)(1) under the Exchange Act. In making that determination, the Board of Directors considered all relevant facts and circumstances, including (but not limited to)

the director's commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships. In addition, at least a majority of the members of the Board of Directors meet the independence standards of the NASDAQ Marketplace Rules.

8

Table of Contents

At least annually, the Board of Directors evaluates all relationships between us and each director in light of relevant facts and circumstances for the purposes of determining whether a material relationship exists that might signal a potential conflict of interest or otherwise interfere with such director's ability to satisfy his or her responsibilities as an independent director. Based on this evaluation, the Board of Directors makes an annual determination of whether each director is independent within the meaning of NASDAQ's, the SEC's, and our independence standards.

Code of Ethics

We have adopted a code of ethics, which we call our code of conduct, that applies to all of our employees, officers, and directors, including those officers responsible for financial reporting. The current version of the code of conduct is available in the corporate governance section of our website at

<http://investors.athenahealth.com/corporate-governance/governance.cfm>. A copy of the code of conduct may also be obtained, free of charge, upon a request directed to: athenahealth, Inc., 311 Arsenal Street, Watertown, MA 02472, Attention: Secretary. We intend to disclose any amendment or waiver of a provision of the code of conduct that applies to our principal executive officer, principal financial officer, principal accounting officer, or controller, or persons performing similar functions, by posting such information on our website (available at <http://www.athenahealth.com>) or in our public filings with the SEC.

Corporate Governance Guidelines

The Board of Directors has adopted corporate governance guidelines to assist and guide its members in the exercise of its responsibilities. These guidelines should be interpreted in accordance with any requirements imposed by applicable federal or state law or regulation, NASDAQ, and our Certificate of Incorporation and By-laws. Our corporate governance guidelines are available in the corporate governance section of our website at

<http://investors.athenahealth.com/corporate-governance/governance.cfm>. Although these corporate governance guidelines have been approved by the Board of Directors, it is expected that these guidelines will evolve over time as customary practice and legal requirements change. In particular, guidelines that encompass legal, regulatory, or exchange requirements as they currently exist will be deemed to be modified as and to the extent that such legal, regulatory, or exchange requirements are modified. In addition, the guidelines may also be amended by the Board of Directors at any time as it deems appropriate.

Majority Voting Policy

In 2011, the Board of Directors revised our corporate governance guidelines by adopting a majority voting policy. This policy requires that any director nominee in an uncontested election be elected by a majority of the votes cast in that election. If a director nominee in such an election does not receive a greater number of votes "for" his or her election than votes "withheld" from such election, that director must promptly submit his or her resignation to the Board of Directors. The nominating and corporate governance committee will then consider all relevant facts and circumstances and recommend to the Board of Directors the action to be taken in regard to such resignation. No later than 90 days following the final tabulation of the shareholders' vote in that election, the Board of Directors must act on the submitted resignation and the recommendation of the nominating and corporate governance committee and disclose its decision regarding whether to accept the nominee's resignation (or the reasons for rejecting the resignation, if applicable), as well as the decision-making process followed, in a Form 8-K furnished to the SEC.

Board and Committee Meetings

The Board of Directors meets on a regularly scheduled basis during the year to review significant developments affecting us and to act on matters requiring their approval. It also holds special meetings when important matters require action between scheduled meetings. Members of senior management regularly attend meetings to report on and discuss their areas of responsibility. During fiscal 2013, the Board of Directors held fourteen meetings and acted by unanimous written consent once. The Board of Directors has three standing committees:

- the audit committee, which held nine meetings in fiscal 2013;
- the compensation committee, which held eight meetings in fiscal 2013 and acted by unanimous written consent four times; and
- the nominating and corporate governance committee, which held five meetings in fiscal 2013.

Each of the incumbent directors of the Board of Directors attended at least 75% of the aggregate of all meetings of the Board of Directors and all meetings of committees of the Board of Directors upon which they served (during the

periods that they served) during 2013. The Board of Directors held at least two executive sessions of the independent directors during 2013. Executive sessions do not include employee directors or directors who do not

Table of Contents

qualify as independent under NASDAQ and SEC rules. The lead director, Mr. Hull, presides as chair of such executive sessions.

Annual Meeting Attendance

It is our policy that members of the Board of Directors are encouraged to attend annual meetings of our shareholders. Three directors attended last year's annual meeting of shareholders.

Committees

Our By-laws provide that the Board of Directors may delegate responsibility to committees. The Board of Directors has three standing committees: an audit committee, a compensation committee, and a nominating and corporate governance committee. The Board of Directors has also adopted a written charter for each of the three standing committees. Each committee charter is available in the corporate governance section our website at <http://investors.athenahealth.com/corporate-governance/governance.cfm>.

The table below shows the composition of the standing committees of the Board of Directors.

Director	Audit	Compensation	Nominating and Corporate Governance
Amy Abernethy	Member		
Jonathan Bush			
Brandon Hull	Member		
Dev Ittycheria		Member	Chair
John A. Kane	Chair		
Jacqueline B. Kosecoff		Member	Member
James L. Mann		Chair	Member
David E. Robinson	Member		

Audit Committee

Dr. Abernethy and Messrs. Hull, Kane, and Robinson currently serve on the audit committee. Mr. Kane is the chairman of our audit committee. The Board of Directors has also determined that each member of the audit committee is independent within the meaning of NASDAQ's and our director independence standards and the SEC's heightened director independence standards for audit committee members, including Rule 10A-3(b)(1) under the Exchange Act. We have determined that each of the members of the audit committee is financially sophisticated and is able to read and understand consolidated financial statements and that Mr. Kane is an "audit committee financial expert" as defined in the Exchange Act. Mr. Kane qualifies as an "audit committee financial expert" due to his experience auditing financial statements, directorships with other public companies, and experience as a CFO, as further described above in the section entitled "Directors and Executive Officers." The audit committee's responsibilities include:

- overseeing our regulatory compliance programs and procedures;
- appointing, approving the compensation of, and assessing the independence of our independent registered public accounting firm;
- pre-approving audit and permissible non-audit services, and the terms of such services, to be provided by our independent registered public accounting firm;
- reviewing and discussing with management and the independent registered public accounting firm our annual and quarterly financial statements and related disclosures;
- coordinating the oversight and reviewing the adequacy of our internal control over financial reporting;
- establishing policies and procedures for the receipt and retention of accounting related complaints and concerns; and
- preparing the audit committee report required by SEC rules to be included in our annual Proxy Statement.

Compensation Committee

Messrs. Ittycheria and Mann and Dr. Kosecoff currently serve on the compensation committee. Mr. Mann is the chairman of our compensation committee. The Board of Directors has determined that each member of the compensation committee is independent within the meaning of NASDAQ's, the SEC's, and our director

Table of Contents

independence standards. In addition, each member of the compensation committee is an “outside director” as defined in Section 162(m) of the Internal Revenue Code and a “non-employee” director for purposes of Exchange Act Rule 16b-3. The compensation committee’s responsibilities include:

- annually reviewing and approving corporate goals and objectives relevant to compensation of our CEO;
- evaluating the performance of our CEO in light of such corporate goals and objectives and determining the compensation of our CEO, including considering the results of the most recent shareholder advisory vote on the compensation of our named executive officers (a “say-on-pay vote”);
- reviewing and approving the compensation of our other executive officers;
- establishing and reviewing our compensation philosophy and policy;
- reviewing and recommending to the Board of Directors for approval the frequency with which we will conduct say-on-pay votes, taking into account the results of the most recent shareholder advisory vote on the frequency of the say-on-pay vote, and reviewing and approving the proposals regarding the say-on-pay vote and the frequency of the say-on-pay vote to be included in the Proxy Statement;
- overseeing and administering our stock plans, employment agreements, severance arrangements, change in control agreements or provisions, and any special or supplemental benefits; and
- appointment, compensation, and oversight of the work of any compensation adviser retained by the compensation committee.

The compensation committee may delegate its authority to one or more subcommittees or to one member of the compensation committee. The compensation committee has the authority to engage independent advisers to assist it in carrying out its responsibilities and the sole authority to approve any such adviser’s fees and other retention terms. For a description of the compensation committee’s processes and procedures for the consideration and determination of executive compensation, please see the section entitled “Compensation Discussion and Analysis” below.

Nominating and Corporate Governance Committee

Messrs. Ittycheria and Mann and Dr. Kosecoff currently serve on the nominating and corporate governance committee. Mr. Ittycheria is the chairman of our nominating and corporate governance committee. The Board of Directors has determined that each member of the nominating and corporate governance committee is independent within the meaning of NASDAQ’s, the SEC’s and our director independence standards. The nominating and corporate governance committee’s responsibilities include:

- developing and recommending to the Board of Directors criteria for selecting members of the Board of Directors and its committees;
- establishing procedures for identifying and evaluating director candidates, including nominees recommended by shareholders;
- identifying individuals qualified to become members of the Board of Directors;
- recommending to the Board of Directors the persons to be nominated for election as directors and to each committee of the Board of Directors;
- developing and recommending to the Board of Directors a code of business conduct and ethics and a set of corporate governance guidelines; and
- overseeing the evaluation of the Board of Directors and its committees and management.

Director Nominations

The Board of Directors has adopted a policy governing director nominations which is available on the corporate governance section of our website at <http://investors.athenahealth.com/corporate-governance/governance.cfm>. The process for identifying and evaluating nominees for the Board of Directors, including nominees recommended by shareholders, is as follows: the nominating and corporate governance committee will: (1) solicit recommendations; (2) review and evaluate the qualifications of any proposed director candidate and conduct inquiries it deems appropriate; (3) evaluate all proposed director candidates in the same manner; (4) consider any proposed director candidate who is deemed qualified in light of the minimum qualifications; and (5) consider, in addition to the minimum qualifications, all facts and circumstances that it deems appropriate or advisable, including, among other things, the skills of the proposed director candidate, his or her depth and breadth of professional experience or other background characteristics, his or her independence, and the needs of the Board of Directors.

Table of Contents

In 2013, we engaged a third-party search firm to assist in identifying, screening, retaining, and successfully nominating and electing a new member to the Board of Directors. We paid this third-party search firm fees of \$80,000 in the aggregate. Our nominating and corporate governance committee provided the third-party search firm with certain capabilities and competencies that the Board of Directors seeks in potential nominees. Based on this information, the search firm compiled a list of candidates and the nominating and corporate governance committee reviewed and evaluated the list, meeting with candidates, as needed, and subsequently made recommendations to the Board of Directors. Dr. Abernethy was recommended as a nominee by this third-party search firm acting on behalf of the nominating and corporate governance committee.

Minimum Qualifications

The nominating and corporate governance committee will consider the following, and any other qualifications, skills, and attributes it deems appropriate, when recommending candidates to be nominated for election as directors and for appointment to any committee of the Board of Directors. Each nominee shall:

- have experience at a strategic or policymaking level in a business, government, non-profit, or academic organization of high standing;
- be highly accomplished in his or her respective field, with superior credentials and recognition;
- exhibit high standards of integrity, commitment, and independence of thought and judgment;
- have significant business or professional experience or demonstrate an exceptional understanding of our industry or other disciplines relevant to our business;
- have sufficient time and availability to devote to athenahealth's affairs, particularly in light of the number of boards on which the nominee may serve; and
- to the extent such nominee serves or has previously served on other boards, the nominee shall have a demonstrated history of actively contributing at board meetings.

While we do not have a policy with regard to the consideration of diversity in identifying director nominees, in identifying and evaluating proposed director candidates, the nominating and corporate governance committee considers, in addition to the minimum qualifications and other criteria for Board of Directors membership approved by the Board of Directors from time to time, whether, if elected, the nominee assists in achieving a mix of board members that represents a diversity of race, ethnicity, gender, age, background, and professional experience.

Shareholder Recommendations

Shareholders may submit recommendations for director candidates to the nominating and corporate governance committee by sending the individual's name and qualifications to our Secretary at: athenahealth, Inc., 311 Arsenal Street, Watertown, MA 02472. Our Secretary will forward all such recommendations to the nominating and corporate governance committee. The nominating and corporate governance committee will evaluate any candidates recommended by shareholders against the same criteria and pursuant to the same policies and procedures applicable to the evaluation of candidates proposed by directors or management.

Shareholder Communications

The Board of Directors provides to every shareholder the ability to communicate with the Board of Directors, as a whole, and with individual directors on the Board of Directors through an established process for shareholder communications. For a shareholder communication directed to the Board of Directors as a whole, shareholders may send such communication to the attention of the Chairman of the Board of Directors via U.S. Mail or Expedited Delivery Service to: c/o athenahealth, Inc., 311 Arsenal Street, Watertown, MA 02472.

For a shareholder communication directed to an individual director in his or her capacity as a member of the Board of Directors, shareholders may send such communication to the attention of the individual director via U.S. Mail or Expedited Delivery Service to: c/o athenahealth, Inc., 311 Arsenal Street, Watertown, MA 02472.

We will forward by U.S. Mail any such shareholder communication to each director, and the Chairman of the Board of Directors in his or her capacity as a representative of the Board of Directors, to whom such shareholder communication is addressed to the address specified by each such director and the Chairman of the Board of Directors, unless there are safety or security concerns that mitigate against further transmission.

Board Leadership Structure

The Board of Directors believes that our board leadership structure — a combined Chairman of the Board of Directors and CEO, a lead director, and committees led by independent directors — is the most appropriate for us

Table of Contents

at this time. Jonathan Bush serves as our CEO and Chairman of the Board of Directors. The Board of Directors believes that Mr. Bush is the director most capable of identifying strategic priorities, leading critical discussions, and executing our strategy and business plans and, therefore, he is best suited to serve as Chairman of the Board of Directors. In addition to the extensive knowledge of the challenges we face possessed by Mr. Bush and his years of experience guiding athenahealth through rapid growth, the independent directors bring their own significant outside experiences, oversight, and expertise. The Board of Directors elects a lead director to preside as chair of the executive sessions of the independent directors, in addition to performing the following responsibilities:

- assist the Chairman of the Board of Directors in developing agendas for Board of Directors meetings and provide input for committee agendas;
- develop agendas and chair executive sessions of the independent directors;
- call special meetings of the independent directors;
- brief the Chairman of the Board of Directors and our Secretary on issues discussed during the independent directors executive sessions;
- facilitate discussion among independent directors on key issues and concerns outside of Board of Directors meetings;
- communicate independent directors concerns to the Board of Directors;
- interview director nominee candidates and make recommendations to the nominating and corporate governance committee;
- be available for consultation and direct communications with shareholders, regulators, and other third parties; and
- be available for additional responsibilities from time to time as determined by the Board of Directors.

Board's Role in Risk Oversight

The Board of Directors oversees our risk management process, designed to support the achievement of our strategic and organizational objectives, to improve long-term organizational performance and enhance shareholder value. Management is responsible for the day-to-day risk management, including conducting an annual assessment of the adequacy and effectiveness of our processes for controlling activities and managing risk, categorizing the relevant risks, and identifying contributing and mitigating factors.

While the Board of Directors has the ultimate responsibility for risk management oversight, the Board of Directors delegates the majority of the administration of its risk oversight function to the audit committee. The annual risk assessment is presented to the audit committee by management, and it determines whether our processes require modification or enhancement. The Chief Audit Officer, who reports directly to the audit committee, leads the internal audit department that helps evaluate and improve the effectiveness of risk management in conjunction with our legal department. The audit committee reviews with management significant business and financial risks and exposures and our guidelines, policies, and measures for assessing and managing these risks and exposures. These risks may be reviewed at regularly scheduled meetings or at special meetings depending on the timing and magnitude of the risk. Management may consult with the audit committee or the chairman of the audit committee to discuss modifications or enhancements to our risk management processes. We complement the internal audit department with a strong compliance function and a compliance committee. The audit committee oversees the compliance committee, which assesses legal and regulatory risks that we face and assists the Board of Directors in its oversight of our compliance program.

The Board of Directors monitors and manages operational and competitive risks through management updates at the regularly scheduled board meetings. Management provides periodic updates on business units and on our long-term goals and mission. The board agenda is tailored to address significant developments that may present risks, such as new government regulations.

The compensation committee reviews our compensation programs to determine whether they are appropriate, properly coordinated and achieve their intended purpose, including furthering our strategic plans and objectives. This review includes understanding and assessing the risk introduced by the compensation programs, as discussed in more detail below.

The nominating and corporate governance committee oversees the risks associated with our governance through assessing the adequacy of our code of conduct and corporate governance guidelines, and by its succession planning process.

Table of Contents

Risks Related to Compensation Policies and Practices

Our compensation committee reviews and evaluates potential risks related to our compensation policies and practices for our employees, including our executive officers. The components of compensation are generally the same for all employees: base salary, cash bonuses, and equity awards for some employees. We assess the competitiveness of compensation at all levels based on external and internal market surveys.

Base Pay is designed to provide steady income regardless of pre-established performance objectives or our stock price performance which allows employees to be compensated without heavy reliance on appreciation of our stock's value or business results beyond their control.

Cash Bonuses are based on pre-established performance objectives. For our executive officers, these awards are based on the scorecards discussed below, and for non-executive employees these awards are based on individual goals associated with their division set by each employee and the employee's manager. The overall bonus pool is funded based on corporate scorecard results, and the funding is increased or decreased based on our performance against the corporate scorecard. Setting individual and corporate performance objectives for cash bonuses helps align employees' goals with our business plan. Goals and performance objectives can be adjusted annually to address areas of particular concern and risks to athenahealth.

Equity Awards align our employees' interests with the interest of our shareholders, help attract new employees, and motivate and retain current employees for future performance. Typically, equity awards vest over four years.

We structure our compensation programs to address company-wide risk. This is accomplished in part by tying compensation to our scorecards and individual-specific goals and objectives. Scorecards and employee's goals can be adjusted annually to address risks identified in the annual risk assessment conducted by management and presented to the audit committee. We also use a mix of different compensation elements to balance short-term versus long-term awards to align compensation with our business strategy and our shareholders' interests. In 2014, management presented potential risks and mitigating factors related to our compensation policies and practices, which the compensation committee reviewed. We believe the combination of base pay, cash bonuses tied to performance objectives, and equity awards with four year vesting periods is balanced and serves to motivate our employees to accomplish our business plan without creating risks that are reasonably likely to have a material adverse effect on us.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

This section discusses the compensation of our CEO, CFO, and the three most highly compensated executive officers (other than our CEO and CFO) who were serving as executive officers as of December 31, 2013. For 2013, these individuals (referred to as the “NEOs”) were:

Jonathan Bush	Chief Executive Officer, President, and Chairman of the Board of Directors
Timothy M. Adams	Senior Vice President and Chief Financial Officer
Rob Cosinuke	Senior Vice President and Chief Marketing Officer
Stephen N. Kahane	President, Enterprise Services Group
Ed Park	Executive Vice President and Chief Operating Officer

Executive Summary

At our 2013 annual meeting of shareholders, approximately 52% of the votes cast on the shareholder advisory vote on executive compensation were voted in favor of the 2012 compensation of our NEOs. While we obtained majority support, the Board of Directors recognized that these results deviated significantly from the historical support for our executive compensation program (93% in 2011 and 99% in 2010), and from what it considered to be satisfactory.

As a result of the Board of Directors’ disappointment in the vote result and in recognition of the need to better understand the views of our shareholders on our executive compensation program, our compensation committee directed us to contact our major shareholders to gather feedback on their concerns. Subsequently, Timothy M. Adams, our Senior Vice President and CFO, and Dana Quattrochi, our Executive Director of Investor Relations, engaged in a concerted and sustained dialogue with our shareholders, including our major institutional shareholders which, in the aggregate, own more than 70% of the outstanding shares of our common stock. These discussions addressed potential changes to our executive compensation program as well as our current equity compensation practices. From these discussions, we learned that the primary reason for the unfavorable vote on our say-on-pay proposal was that our shareholders either did not support, or did not understand the disclosures concerning, the option to purchase 244,630 shares of our common stock granted to Mr. Bush in 2012.

In response to the feedback listed below from our shareholders that resulted from our outreach efforts, we have taken the following actions:

Feedback	Response
	We modified the option granted to Mr. Bush in 2013, with his consent, as follows:
	50% of the shares subject to the option will vest and become exercisable only if, in 2014, we achieve:
	1. revenue growth of 20% or greater over 2013; and
	2. non-GAAP gross margin of 50% or greater.
Do not favor “catch up” compensation (that is, compensation intended to realign cumulative equity awards with our compensation peer group)	If earned, half of these shares vest on March 1, 2015, and the remaining half vest in two equal installments on March 1, 2016, and March 1, 2017, subject to his continued service with us through such vesting date; and The remaining 50% of the shares subject to the option will continue to vest in four equal annual installments on the first four anniversaries of the grant date.

Additional information about the modification to the option granted to Mr. Bush in 2013 is included in the “Equity” section beginning on page 25.

Be clear and concise in executive compensation disclosures

We have provided enhanced disclosure about our executive compensation program in this Proxy Statement as follows:

an expanded discussion and analysis of the decisions with respect to Mr. Bush's compensation;

an enhanced discussion of the compensation peer group selection process; and

additional information about our executive compensation policies and practices, including relevant governance-related policies and practices.

Table of Contents

Feedback	<p>Response</p> <p>Total direct compensation opportunities are consistent with market practices and consist of: (1) base salary, (2) cash bonuses based on scorecard-measured performance, and (3) equity awards in the form of stock options or restricted stock unit awards. Both short-term and long-term incentives are based, in part, on individual performance. We follow a consistent compensation philosophy on an annual basis that is tied to overall corporate and individual performance.</p>
Keep executive compensation packages simple and easy-to-understand	<p>We strive to select companies within the software and services industry with similar revenues and market capitalization. We have expanded the disclosure about the process by which the compensation committee selects companies in the compensation peer group in this Proxy Statement beginning on page <u>19</u>.</p>
Compensation peer group should be based on industry and size	<p>We select the performance objectives for our performance-based equity awards based on internal goals. For example, we used bookings and revenue attributable to new clients as the objectives in the equity awards granted to our executive officers responsible for our sales functions to drive growth and create shareholder value.</p>
Performance objectives for long-term incentives should be aligned to internal goals	<p>We adopted stock ownership guidelines for our executive officers and the non-employee members of our Board of Directors.</p>
Adopt stock ownership requirements for executive officers and directors	<p>After consideration, our Board of Directors determined that our current equity “burn rate” is reasonable when compared to the practices of our compensation peer group and the cloud-based services industry as a whole. Our gross annual burn rate for 2013 was 3.4% and our three-year average burn rate was 4.0%, which was below the 25th percentile and at the 50th percentile, respectively, of our compensation peer group. Nonetheless, we will continue to monitor our “burn rate” in line with our performance.</p>
Equity award “burn rate” targets should be tied to company performance and growth	<p>Note that the impact of the modifications and enhancements described above are not reflected in the 2013 Summary Compensation Table in this Proxy Statement. Since these modifications were made in response to our 2013 say-on-pay vote, which occurred after the compensation committee had made its executive compensation decisions for 2013, they will not be reflected in the Summary Compensation Table and accompanying narrative information until our 2015 Proxy Statement.</p>
Pay for Performance	<p>Our executive compensation is linked to our performance through use of cash bonuses and equity awards. Cash bonuses are based on our achievement of financial and operational objectives established in our scorecards. While historically our equity awards were subject solely to time-based vesting, beginning in 2011, we introduced performance-based equity awards tied to our achievement of specific corporate goals and objectives in addition to our stock price performance.</p>
Cash Bonuses	<p>We use scorecards with pre-established financial and operational metrics for cash bonuses.</p>
Corporate Scorecard	<p>— Our executive officers (other than our CEO) are eligible to earn a cash bonus (with the target bonus expressed as a percentage of his base salary) based on our performance as measured against our corporate scorecard, which includes 13 metrics in the areas of stability, performance, satisfaction, and financial performance.</p>

For 2013, the corporate scorecard results were 98.2% of target. The bonus percentage earned is adjusted by 2% for every 1% of variance from the corporate scorecard target. Because of this, the bonus percentage for our executive officers (other than our CEO) was decreased by 3.6% due to our actual performance against the targets.

CEO Scorecard — Our CEO is eligible to earn a cash bonus (with the target bonus expressed as a percentage of his base salary) based on our performance as measured against the CEO scorecard, which includes four metrics: client satisfaction, bookings, revenue, and net income. For 2013, the CEO scorecard results were 96.98% of target. The bonus percentage earned is adjusted by 3% for every 1% of variance from the CEO scorecard target. Because the CEO scorecard was 3.02% below target, the cash bonus paid to Mr. Bush was decreased by 9.06% from the target award.

Equity Awards

We grant time-based and performance-based equity awards. Time-based equity awards tie the compensation of our executive officers to our stock price performance. Performance-based equity awards link compensation of our executive officers to one or more pre-established corporate goals and objectives.

Table of Contents

- Time-Based Equity Awards — Our executive officers receive time-based stock options and RSUs. Typically, these awards vest 25% per year over four years. Time-based awards provide an incentive to increase long-term shareholder value and align our executives' interests with shareholders.
- Performance-Based Equity Awards — Certain executive officers receive performance-based stock options, RSUs, and performance stock units ("PSUs"). The awards vest based upon the attainment of one or more pre-established performance goals, thereby motivating the executive officer to achieve our corporate objectives.
- Executive Compensation Policies and Practices
 - We endeavor to maintain sound governance standards consistent with our executive compensation policies and practices. The compensation committee evaluates our executive compensation program on an ongoing basis to ensure that it is consistent with our short-term and long-term goals given the dynamic nature of our business and the market in which we compete for executive talent. The following policies and practices were in effect during 2013:
 - Compensation At-Risk. Our executive compensation program is designed so that a significant portion of compensation is "at risk" based on corporate performance, as well as equity-based to align the interests of our executive officers and shareholders.
 - No Retirement Plans. We do not currently offer, nor do we have plans to provide, pension arrangements, retirement plans, or nonqualified deferred compensation plans or arrangements to our executive officers.
 - No Special Health or Welfare Benefits. Our executive officers participate in broad-based company-sponsored health and welfare benefits programs on the same basis as our other full-time, salaried employees.
 - No Tax Reimbursements for Severance or Change-in-Control Payments or Benefits. We do not provide tax reimbursement payments (including "gross-ups") on any severance or change-in-control payments or benefits or any perquisites or other personal benefits, other than certain travel and meal expenses.
 - Compensation Recovery Policy. Our Executive Incentive Plan provides that any annual bonus paid to an executive officer may be recovered if our Board of Directors determines that a significant restatement of our financial results or other metrics for any of the three prior fiscal years is the result of his or her fraud or willful misconduct and his or her annual bonus would have been lower had the results or metrics been properly calculated.
 - Stock Ownership Policy. We have adopted a stock ownership policy for our executive officers that requires them to maintain ownership of our common stock with a value equal to a multiple of their annual base salary, depending on position.
 - Hedging and Pledging Prohibited. We prohibit our employees from hedging or pledging any company securities.
 - Roles in the Compensation-Setting Process
 - Our compensation committee determines executive compensation and oversees our executive compensation program. The compensation committee uses competitive market data as described below as a reference when setting each component of compensation and to make decisions on total target compensation levels. Although the compensation committee reviews and relies on this data in the course of its annual compensation review, the data only provide a reference point. The compensation committee ultimately uses its own business judgment and expertise to determine the appropriate components and levels of compensation for our executive officers. Our compensation committee seeks to construct a compensation structure that is fair relative to compensation paid at similarly situated companies, but skewed slightly higher than industry norms so as to attract highly qualified personnel in a competitive employment environment.
 - Our compensation committee determines the amount of each compensation component to award to our executive officers, although it continues to rely, in part, upon the advice and recommendations of our CEO, particularly with respect to those executive officers that report directly to him. Our CEO performs an annual assessment of the professional effectiveness of each such executive officer and assigns a performance rating for the executive officer. The compensation committee takes the CEO's performance ratings into consideration when setting executive compensation particularly with respect to setting the target total cash compensation and determining the size of the

Table of Contents

equity awards to grant to our executive officers (other than himself). Our CEO does not participate in, and is not present during, any deliberations or determinations of our compensation committee regarding his compensation or individual performance objectives. Our human resources and legal department staff also provide general administrative support to the compensation committee.

The compensation committee has the sole authority to retain or obtain the advice of a compensation consultant as necessary to assist with its duties, and is responsible for the appointment, compensation, and oversight of the work of any compensation consultant. The compensation committee retained Compensia to serve as its compensation consultant during 2013. Compensia reports directly to the compensation committee. During 2013, Compensia advised the compensation committee on a variety of subjects, including preparing an update to our compensation peer group, conducting a competitive compensation market analysis, preparing a CEO stock ownership analysis, reviewing our equity utilization, analyzing our director compensation program, and providing support with respect to our annual shareholder advisory vote on the compensation of our named executive officers. Other than as described in the preceding sentence, we did not retain Compensia to perform any other services during fiscal 2013.

The compensation committee has considered whether the work of Compensia as a compensation consultant has raised any conflict of interest, taking into account the following factors: (i) the amount of fees from us paid to Compensia as a percentage of its total revenue; (ii) the provision of other services to us by Compensia; (iii) Compensia's policies and procedures that are designed to prevent conflicts of interest; (iv) any business or personal relationship of the individual compensation advisers with any member of the compensation committee; (v) any business or personal relationship of Compensia or the individual compensation advisers employed by Compensia with any of our executive officers; and (vi) any of our stock owned by the individual compensation advisers employed by Compensia. Based on the above factors, our compensation committee has concluded that the work of Compensia and the individual compensation advisers employed by Compensia as compensation consultants to us has not created any conflict of interest. The compensation committee also assesses the independence of any of its compensation advisers consistent with applicable NASDAQ listing standards on an annual basis.

Components of Executive Compensation

Our executive compensation program currently consists of three principal components:

Base Salary	Cash Bonus	Equity
Attracts, retains, and rewards executives for our success	Rewards achievement of both company and individual goals	Attracts and retains key contributors with a focus on longer-term achievement

Our compensation philosophy with respect to each of these components, including the basis for the compensation awarded to each of the NEOs, is discussed below. In addition, although each compensation component is considered separately, the compensation committee takes into account the aggregate compensation package for each executive officer in its determination of each individual component of that package. The compensation committee puts significant weight on those aspects of compensation tied to performance, such as annual cash bonuses based on measurable performance objectives and equity in the form of stock options, RSUs, and PSUs.

Table of Contents

Peer Group

In 2012, the compensation committee engaged Compensia to assist it in updating our compensation peer group. The objective of the peer selection process was to identify a group of approximately 15-20 companies that would provide relevant competitive market data to support effective decision making by the compensation committee. The peer group selection process was:

Identify Initial Population hundreds of potential peers	Refine Based on Sub-Industry Group ~ 450 companies	Refine Based on Size ~ 50 companies	Finalize Peer List with Case-by-Case Review 20 peers
	Sub-Industries targeted include:		
Primarily Information Technology GICS Sectors	Application Software	Revenue: 0.33x - 3x of our trailing 12 month revenue of \$376 million	Comparable business models and product strategy
Revenue range from \$50 million to \$3 billion	Healthcare Technology	Market Capitalization: 0.33x - 3x of our market capitalization of \$3.3 billion	High, sustained growth
US headquartered	Internet Software & Services		Profitability

Software

The key factors that were considered when identifying peers were revenue and market capitalization, which the compensation committee determined were the most effective indicators of the size and complexity of our business and were highly correlated with cash and equity pay levels. However, due to our sustained growth and industry, it was difficult to identify companies that are a good fit in both revenue and market capitalization. Seven of our prior compensation peers had been acquired (Blackboard, Cybersource, Eclipsys, Phase Forward, SuccessFactors, Taleo, and Transcend Services) and we were positioned near the top in the market capitalization and revenue among the remaining prior compensation peers. The changes to our compensation peer group were intended to position us near the median in both revenue and market capitalization, and maximize the alignment of each peer company with our characteristics as a company. Our compensation peer group for 2013 was:

Company	Revenue (\$MM)(1)	Market Capitalization (\$MM)(2)
Advent Software	347	1,220
ANSYS	752	6,701
Ariba	517	4,565
CommVault Systems	426	2,385
Concur Technologies	417	4,102
Constant Contact	234	632
DealerTrack Holdings	375	1,194
Fortinet	483	4,323
HMS Holdings	419	2,900
MedAssets	613	1,037
Medidata Solutions	197	961
MicroStrategy	589	1,409
NetSuite	269	4,061
Qlik Technologies	349	2,027
Quality Systems	448	1,134
ServiceNow	159	4,237
SolarWinds	233	4,359
The Ultimate Software Group	298	2,697

Edgar Filing: ATHENAHEALTH INC - Form DEF 14A

TIBCO Software	992	5,232
TripAdvisor	699	5,023
75 th Percentile	535	4,332
50 th Percentile	418	2,798
athenahealth	376	3,312

(1) Revenue represents the trailing 12-month revenue through September 10, 2012.

(2) Market capitalization is as of September 10, 2012.

Table of Contents

Setting Compensation

Our compensation committee has designed our compensation programs to attract and retain highly talented executives to manage rapid growth and innovation in a competitive industry. We seek to maintain a performance-oriented culture and a compensation approach that rewards our executives when we achieve our goals and objectives. For competitive positioning purposes, our compensation committee compares the compensation levels of our NEOs against their counterparts at the companies in the compensation peer group. Our compensation committee uses this competitive market data as a reference point when setting executive compensation. The compensation committee sets target compensation based on individual and company performance and job level.

CEO

In recognition of our strong sustained financial and operational performance, both in the short-term and long-term, under his leadership, the compensation committee decided that above-market target pay opportunities were warranted for Mr. Bush. For 2013, our compensation committee set Mr. Bush's base salary with reference to the 60th percentile of the competitive market data and his target total cash compensation with reference to the 75th percentile of such data based on its determination that:

- the financial and operational performance objectives contained in the CEO scorecard were aggressive and difficult to achieve; and

- he should be rewarded with total cash compensation at a high level relative to the competitive market for outstanding performance (that is, 100% achievement of the CEO scorecard targets).

Additionally, based on our superior performance from our initial public offering through 2012, our compensation committee set Mr. Bush's equity compensation with reference to the 75th percentile of the competitive market data on a cumulative basis as discussed in more detail in the "Equity" section.

Other NEOs

Each year, our CEO assesses the performance of each NEO (other than himself) and determines an individual performance rating of "below," "meets," or "exceeds." These ratings are based on his subjective assessment of the professional effectiveness and capabilities of these executive officers and the nature and scope of their areas of responsibility. These ratings are intended to reflect the following performance evaluations:

- Below means having an "off year" relative to already high performance expectations for individual goals and/or role level competencies with anticipation for remediation and improvement in the subsequent period.

- Meets means performance that goes beyond satisfactory performance and reflects a level of achievement that is in line with our already high expectations for job level competencies and attainment of individual performance goals given our competitive industry and the level of performance required to sustain our rapid growth.

- Exceeds means achieving results above and beyond expectations on individual goals assigned and competencies for job level.

Our compensation committee takes into account each executive officer's individual performance rating and job level when setting target compensation levels. Given the competitive nature of our industry and strong company performance, our compensation committee strives to position target total cash compensation and target total direct compensation above the median of the competitive market data. To provide additional incentive to motivate and retain superior performers, the compensation committee positions target total cash compensation and target total direct compensation at a higher level for executive officers who receive an "exceeds" rating. Our compensation committee positions target total cash compensation and target total direct compensation above the median of the competitive market data because it believes that:

- the financial and operational performance objectives contained in the corporate scorecard are stretch goals;

- above-average variable pay positioning enables us to attract and retain the strongest qualified talent in a highly competitive market; and

- the positioning is consistent with our compensation philosophy which emphasizes variable compensation (that is, cash bonus and equity) as a means of providing above-market rewards for superior performance while maintaining significant downside risk for performance below the target levels.

Table of Contents

For 2013, the compensation committee set the following targets (expressed as a percentage of base salary) based on position and individual performance appraisal rating:

Position		Below	Meets	Exceeds
EVP	Cash Bonus	50%	70%	80%
	Equity	220%	300%	400%
SVP	Cash Bonus	40%	60%	70%
	Equity	55%	220%	300%

For cash bonuses, the prior year's individual performance rating sets the current year target compensation levels. For example, if a NEO received a "below" for 2012 performance, their target cash bonus would be as set forth above under the "below" column, and would be adjusted up or down and paid out quarterly based upon 2013 corporate scorecard results. However, for equity awards, the current year's individual performance rating determines the equity award for that year, which awards are typically granted in the following year.

Base Salary

In 2013, the compensation committee reviewed Mr. Bush's total cash compensation target and since his current base salary was above the 60th percentile of the competitive market data and his total cash compensation target aligned to the 75th percentile, it was determined to leave his base salary unchanged. Similarly, for NEOs (other than Mr. Bush), their base salary is focused on aligning their total target cash compensation above the median of the competitive market data for a "meets" individual performance rating and at a higher level for an "exceeds" individual performance rating. Upon the recommendation of our CEO, the compensation committee decided to increase Mr. Adams' and Mr. Park's base salaries based on the nature and scope of their areas of responsibility and to better align their total cash compensation package with our pay philosophy. The compensation committee left the remainder of the NEOs' base salaries unchanged. The following table sets forth the base salaries of the NEOs for 2012 and 2013:

Executive	2012 Base Salary(1)	2013 Base Salary(1)	Percentage Increase	
Jonathan Bush	\$540,000	\$540,000	—	%
Timothy M. Adams	321,300	350,000	8.9	%
Rob Cosinuke	300,000	300,000	—	%
Stephen N. Kahane	300,000	300,000	—	%
Ed Park	300,000	350,000	16.7	%

(1) The amounts reported represent base salaries on an annualized basis. Due to our payroll schedule and the timing of base salary adjustments, the amounts actually paid may vary from these figures.

Cash Bonus

We use our Executive Incentive Plan, an annual cash incentive compensation plan, to motivate and reward our executive officers, including the NEOs, for achieving our short-term financial and operational objectives while making progress towards our longer-term growth and business goals. We measure our corporate performance based on balanced scorecards. We believe that this approach has been a highly effective way to track and evaluate our performance year-over-year which enables us to both focus on our short-term objectives while, at the same time, measuring key performance indicators required for long-term success. Since we use this approach to track and evaluate our corporate performance, our compensation committee has elected to use similar scorecards to determine the cash bonuses for our executive officers, thereby aligning their annual incentive compensation with our financial and operational objectives.

Pursuant to the Executive Incentive Plan, each year the compensation committee establishes cash bonus awards for our executive officers, including the NEOs, expressed as a percentage of their base salary. In the case of our CEO, his maximum bonus award is equal to 300% of his annual base salary, while in the case of the other NEOs, their maximum bonus award is equal to 100% of their annual base salary.

In addition, the compensation committee also sets threshold goals, which represent a minimum level of performance that must be achieved before our executive officers can earn any cash bonus for the year. If any of these pre-established threshold goals is achieved, then each executive officer is eligible to earn his maximum cash bonus

award. This maximum award is then subject to reduction (but not increase) by the compensation committee based on its assessment of each executive officer's performance for the year based on the results of his or her

21

Table of Contents

scorecard. If none of the pre-established threshold goals is achieved, no cash bonuses will be paid for the year under the Executive Incentive Plan.

Target Award

Our compensation committee sets a target cash bonus award for each NEO (which is expressed as a percentage of the NEO's base salary). The target cash bonus award is the amount that would be earned upon achievement of 100% of the scorecard results (provided that any threshold goal is achieved).

In 2013, the target cash bonus award for our CEO was determined based on the compensation committee's intent to set his target total cash compensation with reference to the 75th percentile of the competitive market data. Since his total cash compensation target for 2012 of \$1,080,000 was already close to the 75th percentile, the compensation committee decided to leave his target total cash compensation unchanged for 2013.

For the other NEOs, the target cash bonus awards were based on the NEO's position level and individual performance rating for 2012 as determined by the compensation committee, with input from our CEO. For 2012 performance, the compensation committee decided, with consultation from our CEO, that Mr. Park should receive an "exceeds" individual performance rating and the rest of the NEOs receive a "meets" individual performance rating.

The target cash bonus award and each NEO's applicable scorecard for 2013 were as follows:

Name	Scorecard	Base Salary (\$)	Target Award (\$)	Target Cash Bonus (\$)	Target Total Cash Compensation (\$)
Jonathan Bush	CEO	540,000	100	% 540,000	1,080,000
Timothy M. Adams	Corporate	350,000	60	% 210,000	560,000
Rob Cosinuke	Corporate	300,000	60	% 180,000	480,000
Stephen N. Kahane	Corporate	300,000	60	% 180,000	480,000
Ed Park	Corporate	350,000	80	% 280,000	630,000

Threshold Goals

The compensation committee established the threshold goals for our CEO on an annual basis and the threshold goals for the other NEOs on a quarterly basis. The threshold goals were designed as a mechanism to fund our Executive Incentive Plan. To enhance the motivational objectives of the Executive Incentive Plan, the compensation committee decided not to pay any cash bonus award unless at least one threshold goal was achieved. As a result, the threshold goals were set to be the minimum level of achievement of our financial and operational objectives that the compensation committee would be satisfied with paying any cash bonus at all. Therefore, the threshold goals may differ from goals used for similar metrics on our scorecards.

The following table sets forth the quarterly and annual threshold goals and our actual achievement against the threshold goals.

Metric*	Q1 2013		Q2 2013		Q3 2013		Q4 2013		FY 2013	
	Goal	Status	Goal	Status	Goal	Status	Goal	Status	Goal	Status
Revenue (\$ millions)	115.9	Met	124.2	Met	127.1	Met	139.6	Met	506.7	Met
Operating Income (\$ millions)	13.9	Failed	17.8	Failed	23.2	Failed	23.6	Met	78.6	Failed
Gross Margin	61.4%	Failed	62.6%	Failed	62.7%	Failed	63.4%	Met	62.6%	Failed