Rubicon Technology, Inc.
Form 10-Q
May 08, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2015**

or

¨ **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________**

Commission file number 001-33834

RUBICON TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**36-4419301**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
900 East Green Street Bensenville, Illinois	**60106**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (847) 295-7000

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

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

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

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

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

As of May 5, 2015 the Registrant had 26,197,843 shares of common stock, par value $0.001 per share, outstanding.

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RUBICON TECHNOLOGY, INC.

Quarterly Report on Form 10-Q

For the quarterly period ended March 31, 2015

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PART I FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements
Rubicon Technology, Inc.

Consolidated balance sheets

	March 31, 2015	December 31, 2014
	(unaudited)	
	(in thousands, other than share data)	
Assets		
Cash and cash equivalents	$ 25,127	$ 24,353
Restricted cash	179	183
Short-term investments	15,876	20,562
Accounts receivable, net	7,553	8,323
Inventories	21,798	22,739
Other inventory supplies	8,000	8,208
Prepaid expenses and other current assets	920	1,035
Total current assets	79,453	85,403
Property and equipment, net	104,593	107,676
Other assets	1,604	1,827
Total assets	$ 185,650	$ 194,906
Liabilities and stockholders equity		
Accounts payable	$ 2,640	$ 3,754
Accrued payroll	249	514
Accrued and other current liabilities	1,174	925
Corporate income and franchise taxes	80	270
Accrued real estate taxes	335	280
Advance payments	7	10
Total current liabilities	4,485	5,753
Deferred tax liability	622	593
Total liabilities	5,107	6,346
Commitments and contingencies		
Stockholders equity		

Preferred stock, $0.001 par value, 5,000,000 undesignated shares authorized, no shares issued or outstanding		
Common stock, $0.001 par value, 40,000,000 shares authorized and 27,972,687 and 27,913,788 shares issued; 26,197,843 and 26,138,944 shares outstanding	28	28
Additional paid-in capital	372,644	372,319
Treasury stock, at cost, 1,774,844 shares	(12,148)	(12,148)
Accumulated other comprehensive loss	(37)	(43)
Accumulated deficit	(179,944)	(171,596)
Total stockholders equity	180,543	188,560
Total liabilities and stockholders equity	$ 185,650	$ 194,906

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

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Rubicon Technology, Inc.

Consolidated statements of operations

	Three months ended March 31,	
	2015	**2014**
	(unaudited) (in thousands, other than share and per share data)	
Revenue	$ 8,910	$ 14,268
Cost of goods sold	14,019	21,762
Gross loss	(5,109)	(7,494)
Operating expenses:		
General and administrative	2,068	2,388
Sales and marketing	338	467
Research and development	433	576
Loss from operations	(7,948)	(10,925)
Other income:		
Interest income	16	21
Interest expense	(23)	(23)
Realized (loss) gain on foreign currency translation	(357)	39
Total other (expense) income	(364)	37
Loss before income taxes	(8,312)	(10,888)
Income tax expense	36	6
Net loss	$ (8,348)	$ (10,894)
Net loss per common share		
Basic	$ (0.32)	$ (0.43)
Diluted	$ (0.32)	$ (0.43)
Weighted average common shares outstanding used in computing net loss per common share basic and diluted	26,129,276	25,317,147

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

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Rubicon Technology, Inc.

Consolidated statements of comprehensive loss

	Three months ended March 31,	
	2015	2014
	(unaudited) (in thousands)	
Net loss	$ (8,348)	$ (10,894)
Other comprehensive income (loss):		
Unrealized gain (loss) on investments, net of tax	6	(156)
Unrealized loss on currency translation		1
Other comprehensive income (loss)	6	(155)
Comprehensive loss	$ (8,342)	$ (11,049)

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

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Rubicon Technology, Inc.

Consolidated statements of cash flows

	Three months ended March 31,	
	2015	**2014**
	(unaudited)	
	(in thousands)	
Cash flows from operating activities		
Net loss	$ (8,348)	$ (10,894)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	3,317	3,507
Stock-based compensation	334	448
Deferred taxes	29	
Changes in operating assets and liabilities:		
Accounts receivable	770	(4,597)
Inventories	647	5,781
Other inventory supplies	100	(140)
Prepaid expenses and other assets	332	(354)
Accounts payable	(1,050)	1,192
Accrued payroll	(258)	(56)
Corporate income and franchise taxes	(189)	(92)
Advanced payments	(4)	347
Accrued and other current liabilities	313	385
Net cash used in operating activities	(4,007)	(4,473)
Cash flows from investing activities		
Purchases of property and equipment	(234)	(1,924)
Purchases of investments	(307)	(26,675)
Proceeds from sale of investments	5,000	4,500
Net cash provided by (used in) investing activities	4,459	(24,099)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of issuance costs		34,961
Proceeds from exercise of options		256
Taxes paid related to net share settlement of equity awards	(8)	
Restricted cash	4	4
Net cash (used in) provided by financing activities	(4)	35,221
Net effect of currency translation	326	(39)

Net increase in cash and cash equivalents	774	6,610
Cash and cash equivalents, beginning of period	24,353	21,071
Cash and cash equivalents, end of period	$ 25,127	$ 27,681

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

Rubicon Technology, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

1. BASIS OF PRESENTATION

Interim financial data

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements and should be read in conjunction with Rubicon Technology, Inc. s (the Company) annual report filed on Form 10-K for the fiscal year ended December 31, 2014. In the opinion of management, all adjustments (consisting only of adjustments of a normal and recurring nature) considered necessary for a fair presentation of the results of operations have been included. Consolidated operating results for the three month periods ended March 31, 2015 are not necessarily indicative of results that may be expected for the year ending December 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Rubicon Worldwide LLC and Rubicon Sapphire Technology (Malaysia) SDN BHD. All intercompany transactions and balances have been eliminated in consolidation.

Foreign currency translation and transactions

Rubicon Worldwide LLC s assets and liabilities are translated into U.S. dollars at exchange rates existing at the respective balance sheet dates and capital accounts at historical exchange rates. The results of operations are translated into U.S. dollars at the average exchange rates during the respective period. Translation adjustments resulting from fluctuations in exchange rates for Rubicon Worldwide LLC are recorded as a separate component of accumulated other comprehensive loss within stockholders equity.

The Company has determined that the functional currency of Rubicon Sapphire Technology (Malaysia) SDN BHD is the U.S. dollar. Rubicon Sapphire Technology (Malaysia) SDN BHD s assets and liabilities are translated into U.S. dollars using the remeasurement method. Non-monetary assets are translated at historical exchange rates and monetary assets are translated at exchange rates existing at the respective balance sheet dates. Translation adjustments for Rubicon Sapphire Technology (Malaysia) SDN BHD are included in determining net income (loss) for the period. The results of operations are translated into U.S. dollars at the average exchange rates during the respective period. The Company records these gains and losses in other income (expense).

Foreign currency transaction gains and losses are generated from the effects of exchange rate changes on transactions denominated in a currency other than the functional currency of the Company, which is the U.S. dollar. Gains and losses on foreign currency transactions are generally required to be recognized in the determination of net loss for the period. The Company records these gains and losses in other income (expense).

Investments

The Company invests available cash primarily in investment grade commercial paper, corporate notes, FDIC guaranteed certificates of deposits, common stock, and government securities. Investments classified as available-for-sale securities are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive loss. Investments in trading securities are reported at fair value, with both realized and unrealized gains and losses recorded in other income (expense), in the Consolidated Statement of Operations. Investments in which the Company has the ability and intent, if necessary, to liquidate in order to support its current operations, are classified as short-term.

The Company reviews its available-for-sale securities investments at the end of each quarter for other-than-temporary declines in fair value based on the specific identification method. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, its ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. When the Company concludes that an other-than-temporary impairment has resulted, the difference between the fair value and carrying value is written off and recorded as a charge on the Consolidated Statement of Operations. As of March 31, 2015, no impairment was recorded.

Accounts receivable

The majority of the Company s accounts receivable is due from manufacturers serving the LED and optical systems and specialty electronics devices industries. Credit is extended based on an evaluation of the customer s financial condition. Accounts receivable are due based on contract terms and at stated amounts due from customers, net of an allowance for doubtful accounts.

Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time past due, the customer s current ability to pay and the condition of the general economy and industry as a whole. The Company writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are recorded as a reduction to bad debt expense. The following table shows the activity of the allowance for doubtful accounts:

	March 31, 2015	December 31, 2014
	(in thousands)	
Beginning balance	$ 140	$ 50
Charges to costs and expenses	(63)	105
Accounts charged off, less recoveries		(15)
Ending balance	$ 77	$ 140

Inventories

Inventories are valued at the lower of cost or market. Raw materials cost is determined using the first-in, first-out method, and work-in-process and finished goods costs are determined on a weighted-average cost basis which includes materials, labor and overhead. The Company reduces the carrying value of its inventories for differences between the cost and the estimated net realizable value, taking into account usage, expected demand, technological obsolescence and other information. At times in 2015 and 2014, the Company accepted sales orders for core and wafer products at prices lower than cost. Based on these sales prices, the Company recorded for the three months ended March 31, 2015 and 2014, a lower of cost or market adjustment which reduced inventory and increased cost of goods sold by $252,000 and $1.1 million, respectively. Inventories are composed of the following:

	March 31, 2015	December 31, 2014
	(in thousands)	
Raw materials	$ 12,913	$ 14,503
Work in progress	7,468	6,357
Finished goods	1,417	1,879
	$ 21,798	$ 22,739

The Company establishes inventory reserves when conditions exist that suggest inventory may be in excess of anticipated demand or is obsolete based on customer specifications. The Company evaluates the ability to realize the

value of its inventory based on a combination of factors, including forecasted sales, estimated current and future market value and changes in customers product specifications. The Company s method of estimating excess and obsolete inventory has remained consistent for all periods presented.

Property and equipment

Property and equipment consisted of the following:

	March 31, 2015	December 31, 2014
	(in thousands)	
Land and land improvements	$ 4,133	$ 4,133
Buildings	32,487	32,482
Machinery, equipment and tooling	127,404	127,158
Leasehold improvements	7,640	7,640
Furniture and fixtures	961	961
Information systems	1,140	1,140
Construction in progress	3,650	3,734
Total cost	177,415	177,248
Accumulated depreciation and amortization	(72,822)	(69,572)
Property and equipment, net	$ 104,593	$ 107,676

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Impairment of long-lived assets

When circumstances, such as adverse market conditions, indicate that the carrying value of a long-lived asset may be impaired, the Company performs an analysis to review the recoverability of the asset s carrying value. The Company makes estimates of the undiscounted cash flows (excluding interest charges) from the expected future operations of the asset. These estimates consider factors such as expected future operating income, operating trends and prospects, as well as the effects of demand, competition and other factors. If the analysis indicates that the carrying value is not recoverable from future cash flows, an impairment loss is recognized to the extent that the carrying value exceeds the estimated fair value. Any impairment losses are recorded as operating expenses, which reduce net income. In response to the Company s current period operating losses combined with its history of continuing operating losses, the Company evaluated the recoverability of certain property and equipment. Based upon the Company s assessment using its most recent projections, no impairment to these assets was indicated as of March 31, 2015, as the recoverable amount of undiscounted cash flows exceeded the carrying amount of these assets. To the extent these projections are not achieved, there may be a negative effect on the valuation and carrying value of these assets.

There were no impairment losses on long lived assets for the three months ended March 31, 2015.

Revenue recognition

Revenues recognized include product sales and billings for costs and fees for government contracts.

Product Sales

The Company recognizes revenue from product sales when earned. Revenue is recognized when, and if, evidence of an arrangement is obtained and the other criteria to support revenue recognition are met, including:

Persuasive evidence of an arrangement exists. The Company requires evidence of a purchase order with the customer specifying the terms and specifications of the product to be delivered, typically in the form of a signed quotation or purchase order from the customer.

Title has passed and the product has been delivered. Title passage and product delivery generally occur when the product is delivered to a common carrier.

The price is fixed or determinable. All terms are fixed in the signed quotation or purchase order received from the customer. The purchase orders do not contain rights of cancellation, return, exchange or refund.

Collection of the resulting receivable is reasonably assured. The Company s standard arrangement with customers includes payment terms. Customers are subject to a credit review process that evaluates each customer s financial position and its ability to pay. Collectability is determined by considering the length of time the customer has been in business and history of collections. If it is determined that collection is not probable, no product is shipped and no revenue is recognized unless cash is received in advance.

Government Contracts

The Company recognizes research and development revenue in the period during which the related costs are incurred over the contractually defined period. In July 2012, the Company signed a contract with the Air Force Research Laboratory to produce large-area sapphire windows on a cost plus fixed fee basis. The Company records research and development revenue on a gross basis as costs are incurred plus a portion of the fixed fee. For the three months ended March 31, 2015 and 2014, $141,000 and $125,000 of revenue was recognized, respectively. The contract is for three years and the total value of the contract is $4.7 million, of which $3.4 million has been recognized through March 31, 2015.

The Company does not provide maintenance or other services and it does not have sales that involve multiple elements or deliverables.

Net income per common share

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of diluted common shares outstanding during the period. Diluted shares outstanding are calculated by adding to the weighted-average shares any outstanding stock options and warrants based on the treasury stock method.

Diluted net loss per share is the same as basic net loss per share for the three months ended March 31, 2015 and 2014 because the effects of potentially dilutive securities are anti-dilutive.

At March 31, 2015 and 2014, the Company had the following anti-dilutive securities outstanding which were excluded from the calculation of diluted net loss per share:

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	March 31, 2015	March 31, 2014
Warrants	38,219	175,832
Stock options	21,952	357,511
	60,171	533,343

Other comprehensive loss

Comprehensive loss is defined as the change in equity of a business enterprise from transactions and other events from non-owner sources. Comprehensive loss includes net earnings (loss) and other non-owner changes in equity that bypass the statement of operations and are reported in a separate component of equity. For the three months ended March 31, 2015 and 2014, other comprehensive loss includes the unrealized loss on investments and foreign currency translation adjustments.

The following table summarizes the components of comprehensive loss:

	March 31, 2015	December 31, 2014
	(in thousands)	
Reclassification of unrealized gain included in net loss	$	$ 388
Unrealized loss on investments, net of taxes	(22)	(415)
Unrealized loss on currency translation	(15)	(16)
Ending Balance	$ (37)	$ (43)

Recent accounting pronouncement

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity s contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. The adoption of ASU 2014-09 is not expected to have a material impact on the Company s consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12 (ASU 2014-12), *Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating

the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. The Company is evaluating the impact, if any, of adopting ASU 2014-12 on its financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*. The standard requires management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. Management must evaluate whether it is probable that known conditions or events, considered in the aggregate, would raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. If such conditions or events are identified, the standard requires management s mitigation plans to alleviate the doubt or a statement of the substantial doubt about the entity s ability to continue as a going concern to be disclosed in the financial statements. The standard is effective for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the impact, if any, of adopting ASU 2014-15 on its financial statements.

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3. SEGMENT INFORMATION

The Company evaluates operations as one reportable segment, as it only reports profit and loss information on an aggregate basis to its chief operating decision maker.

Revenue is attributed by geographic region based on ship-to location of the Company s customers. The following table summarizes revenue by geographic region:

	Three months ended March 31, 2015	Three months ended March 31, 2014
	(in thousands)	
China	$ 3,351	$ 6,450
Taiwan	1,701	3,764
United States	1,523	1,370
Korea	725	1,896
Other	1,610	788
Revenue	$ 8,910	$ 14,268

The following table summarizes revenue by product type:

	Three months ended March 31, 2015	Three months ended March 31, 2014
	(in thousands)	
Core	$ 5,109	$ 11,355
Wafer	1,891	1,095
Optical	1,769	1,638
Research & Development	141	125
Other		55
Revenue	$ 8,910	$ 14,268

The following table summarizes assets by geographic region:

	March 31, 2015	December 31, 2014
	(in thousands)	
United States	$ 146,828	$ 156,105
Malaysia	38,796	38,765
Other	26	36

Total Assets	$ 185,650	$ 194,906

4. INVESTMENTS

The Company invests available cash primarily in investment grade commercial paper, corporate notes, FDIC guaranteed certificates of deposits, common stock, and government securities. The Company s short-term investments balance of $15.9 million as of March 31, 2015, is comprised of corporate notes and bonds of $12.8 million and FDIC guaranteed certificates of deposit of $3.1. The Company s investments are classified as available-for-sale securities and are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive loss.

The following table presents the amortized cost and gross unrealized gains and losses on all securities at March 31, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term Investments:				
FDIC Guaranteed certificates of deposit	$ 3,080	$	$ 1	$ 3,079
Corporate notes/bonds	12,806		9	12,797
Total short-term investments	$ 15,886	$	$ 10	$ 15,876

The following table presents the amortized cost and gross unrealized gains and losses on all securities at December 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term Investments:				
FDIC Guaranteed certificates of deposit	$ 2,120	$	$ 2	$ 2,118
Corporate Notes/Bonds	18,458		14	18,444
Total short-term investments	$ 20,578	$	$ 16	$ 20,562

The Company values its investments at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard below describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company s fixed income available-for-sale securities consist of high quality, investment grade commercial paper, corporate notes, FDIC guaranteed certificates of deposits, common stock, and government securities. The Company values these securities based on pricing from pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. The valuation techniques used to measure the fair value of the Company s financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques.

The following table summarizes the Company s financial assets measured at fair value on a recurring basis as of March 31, 2015:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Cash Equivalents:				
Money market funds	$ 21,672	$	$	$ 21,672
Investments:				
Available-for-sales securities current				
FDIC Guaranteed certificates of deposit		3,079		3,079
Corporate notes/bonds		12,797		12,797
Total	$ 21,672	$ 15,875	$	$ 37,548

The following table summarizes the Company s financial assets measured at fair value on a recurring basis as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market funds	$ 21,963	$	$	$ 21,963
Investments:				
Available-for-sales securities current:				
FDIC Guaranteed certificates of deposit		2,118		2,118
Corporate notes/bonds		18,444		18,444
Total	$ 21,963	$ 20,562	$	$ 42,525

In addition to the debt securities noted above, the Company had approximately $3.5 million and $2.4 million of time deposits included in cash and cash equivalents as of March 31, 2015 and December 31, 2014, respectively.

5. SIGNIFICANT CUSTOMERS

For the three months ended March 31, 2015, the Company had one customer individually that accounted for approximately 29% of revenue. For the three months ended March 31, 2014, the Company had four customers individually that accounted for approximately 21%, 14%, 11% and 11% of revenue, respectively.

Customers individually representing more than 10% of trade receivables accounted for approximately 57% and 50% of accounts receivable as of March 31, 2015 and December 31, 2014, respectively. The Company grants credit to customers based on an evaluation of their financial condition. Losses from credit sales are provided for in the financial statements.

6. STOCKHOLDERS EQUITY

Common Stock

As of March 31, 2015, the Company had reserved 2,418,119 shares of common stock for issuance upon the exercise of outstanding common stock options and vesting of restricted stock units. Also, 1,648,487 shares of the Company s common stock were reserved for future grants of stock options (or other similar equity instruments) under the Company s 2007 Stock Incentive Plan (the 2007 Plan) as of March 31, 2015. In addition, 267,826 shares of the Company s common stock were reserved for future exercise of outstanding warrants as of March 31, 2015.

On January 13, 2014, the Company completed a public offering of common stock in which a total of 3,047,500 shares were sold including 397,500 shares pursuant to the full exercise of the underwriter s over-allotment option, at a price of $10.65 per share. The Company raised a total of $32.5 million in gross proceeds from the offering, or approximately $30.3 million in net proceeds after deducting the underwriting discount and expenses of $2.3 million.

On March 20, 2014, certain selling stockholders of the Company completed a public offering of 2,875,000 shares of common stock and the Company sold 375,000 shares pursuant to the full exercise of the underwriter s over-allotment option each at a price of $13.00 per share. The Company raised a total of $4.9 million in gross proceeds from the offering, or approximately $4.4 million in net proceeds after deducting the underwriting discount and expenses of $319,000 and estimated costs of $148,000.

Warrants

For the three months ended March 31, 2015, no common stock warrants were exercised. At March 31, 2015 and December 31, 2014, there were 267,826 common stock warrants outstanding.

7. STOCK INCENTIVE PLANS

The Company sponsored a stock option plan, the 2001 Plan, which allowed for the granting of incentive and nonqualified stock options for the purchase of common stock. The maximum number of shares that may be awarded or sold under the 2001 Plan was 1,449,667 shares. Each option entitles the holder to purchase one share of common stock at the specified option exercise price. The exercise price of each incentive stock option granted must not be less than the fair market value on the grant date. At the discretion of management and with the approval of the Board of Directors, the Company granted options under the 2001 Plan. Management and the Board of Directors determined

vesting periods and expiration dates at the time of the grant. On August 2, 2011, the plan expired.

In August 2007, the Company adopted the 2007 Plan, which allows for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and bonus shares. The Board of Directors has appointed a committee to administer the plan. The plan committee determines the type of award to be granted, the fair market value, the number of shares covered by the award, and the time when the award vests and may be exercised.

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The Company uses the Black-Scholes option pricing model to value stock options issued after January 1, 2006. For options granted in 2015, the Company uses five year historical data to determine its volatility assumptions and expected term. The assumed risk-free rates were based on U.S. Treasury rates in effect at the time of grant with a term consistent with the expected option lives. The forfeiture rate is based on past history of forfeited options. The expense is being allocated using the straight-line method. For the three months ended March 31, 2015 and 2014, the Company recorded $200,000 and $289,000, respectively, of stock option compensation expense. As of March 31, 2015, the Company had $1.7 million of total unrecognized compensation cost related to non-vested stock option awards granted under the Company s stock-based plans that it expects to recognize over a weighted-average period of 2.69 years. The Company accounts for options issued prior to January 1, 2006 under the intrinsic value method.

The following table summarizes the activity of the stock incentive and equity plans as of March 31, 2015 and changes during the three months then ended:

	Shares available for grant	Number of options outstanding	Weighted-average option exercise price	Number of restricted stock and board shares issued	Number of restricted stock units outstanding
At January 1, 2015	1,772,529	2,238,286	$ 10.31	140,653	134,731
Granted	(165,239)	60,000	3.97	60,802	44,437
Exercised					
Cancelled/forfeited	41,197	(46,966)	13.72		(12,369)
At March 31, 2015	1,648,487	2,251,320	$ 10.09	201,455	166,799

The Company s aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company s common stock. Based on the fair market value of the common stock at March 31, 2015 and 2014, there was no intrinsic value for options outstanding. The weighted average fair value per share of options granted for the three months ended March 31, 2015 was $3.97 and the fair value of each option grant was estimated at the date of grant using the Black-Scholes option pricing model using an expected term of 5.5 years, risk-free interest rate of 1.41%, expected volatility of 65% and no dividend yield. The Company used an expected forfeiture rate of 18.56%.

A summary of the Company s non-vested options during the three month period ended March 31, 2015 is presented below:

	Options	Weighted-average exercise price
Non-vested at January 1, 2015	628,733	$ 5.93
Granted	60,000	3.97
Vested	(31,375)	6.81

Forfeited	(27,699)		11.40
Non-vested at March 31, 2015	629,659	$	5.46

For the three months ended March 31, 2015 and 2014, the Company recorded $61,000 and $25,000, respectively, of restricted stock unit (RSU) expense. As of March 31, 2015, there was $610,000 of unrecognized compensation cost related to the non-vested RSUs. This cost is expected to be recognized over a weighted-average period of 2.6 years.

A summary of the Company s restricted stock units is as follows:

	RSUs outstanding		Weighted average price at time of grant		Aggregate intrinsic value
Non-vested restricted stock units as of January 1, 2015	134,731	$	5.41		
Granted	44,437		4.36		
Cancelled	(12,369)		5.59		
Non-vested at March 31, 2015	166,799	$	5.12	$	657,000

For the three months ended March 31, 2015 and 2014, the Company recorded $73,000 and $134,000, respectively, of stock compensation expense related to restricted stock.

An analysis of restricted stock issued is as follows:

Non-vested restricted stock as of January 1, 2015	12,207
Granted	60,802
Vested	(6,980)
Non-vested restricted stock as of March 31, 2015	66,029

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8. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has entered into agreements for electricity and to purchase equipment and components to construct furnaces. These agreements will result in the Company purchasing electricity, equipment or components for a total cost of approximately $3.6 million with deliveries occurring through 2016.

Litigation

From time to time, the Company experiences routine litigation in the normal course of its business. The management of the Company does not believe any pending litigation will have a material adverse effect on the financial condition or results of operations of the Company.

9. INCOME TAXES

The Company is subject to income taxes in the U.S. and Malaysia. On a quarterly basis, the Company assesses the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment and multiple factors, both positive and negative, are considered. For the period ended March 31, 2015, a valuation allowance has been included in the 2015 forecasted effective tax rate. The Company is in a cumulative loss position for the past three years, which is considered significant negative evidence that is difficult to overcome on a more likely than not standard through objectively verifiable data. Under the accounting standards objective verifiable evidence is given greater weight than subjective evidence such as the Company s projections for future growth. Based on an evaluation in accordance with the accounting standards, as of December 31, 2014, a valuation allowance has been recorded against the net U.S. deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all the available evidence. At March 31, 2015 the Company continues to be in a three year cumulative loss position therefore until an appropriate level of profitability is attained, the Company expects to maintain a full valuation allowance on its U.S. net deferred tax assets. Any U.S. tax benefits or tax expense recorded on the Company s Consolidated Statement of Operations will be offset with a corresponding valuation allowance until such time that the Company changes its determination related to the realization of deferred tax assets. In the event that the Company changes its determination as to the amount of deferred tax assets that can be realized, the Company will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

The tax provision for the three months ended March 31, 2015 is based on an estimated combined statutory effective tax rate. The Company recorded for the three months ended March 31, 2015 a tax expense of $36,000 for an effective tax rate of 0.44%. For the three months ended March 31, 2015 the difference between the Company s effective tax rate and the U.S. federal 35% statutory rate and state 6.2% (net of federal benefit) statutory rate was primarily related to a U.S. valuation allowance and profits recorded in the Malaysia operation for which the Company has a tax holiday.

10. CREDIT FACILITY

On January 2, 2013, the Company entered into a three-year term agreement with a bank to provide the Company with a senior secured credit facility of up to $25.0 million. The agreement provides for the Company to borrow up to 80% of the value of eligible accounts receivable and up to 35% of the value of domestically held raw material and finished goods inventory. Advances against inventory are limited to the lesser of 40% of the aggregate outstanding principal on the revolving line of credit and $10.0 million. The Company has the option to borrow at an interest rate of LIBOR plus 2.75% or the Wall Street Journal prime rate plus 0.50%. If the Company maintains liquidity of $20.0 million or

greater with the lending institution, then the borrowing interest rate options are LIBOR plus 2.25% or the Wall Street Journal prime rate. There is an unused revolving line facility fee of 0.375% per annum. The facility is secured by a first priority interest in substantially all of the Company s personal property, excluding intellectual property. The Company is required to maintain an adjusted quick ratio of 1.40 to 1.00, maintain operating and other deposit accounts with the bank or bank s affiliates of 25% of the Company s total worldwide cash, securities and investments, and the Company can pay dividends or repurchase capital stock only with the bank s consent during the three year term. For the three months ended March 31, 2015, the Company did not draw on this facility. For each of the three months ended March 31, 2015 and 2014, the Company recorded $23,000 of interest expense charged on the unused portion of the facility.

11. SUBSEQUENT EVENT

On April 30, 2015, Firerock Global Opportunity Fund LP filed a complaint in the Northern District of Illinois asserting federal securities claims against the Company, certain officers, its directors and the underwriters in the Company s March 2014 stock offering (the Complaint). The Complaint seeks as a remedy either money damages or rescission of the March offering, plus attorneys fees. The Company intends to vigorously defend this lawsuit. Due to the preliminary nature of the lawsuit, at this time, we cannot predict an outcome, nor is it reasonably possible to estimate the amount or range of loss, if any, that would be associated with an adverse decision.

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

All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q, including statements regarding our estimates, expectations, beliefs, intentions, projections or strategies for the future, results of operations, financial position, net sales, projected costs, prospects and plans and objectives of management for future operations may be forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward looking statements can be identified by the use of terms and phrases such as believe, plan, intend, anticipate, target, estimate, expect, forecast, prospects, goals, potential, likely, an future-tense or conditional constructions such as will, may, could, should, etc. (or the negative thereof). Items contemplating or making assumptions about actual or potential future sales, market size and trends or operating results also constitute forward-looking statements.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Before investing in our common stock, investors should be aware that the occurrence of the risks, uncertainties and events described in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 and elsewhere in this Quarterly Report could have a material adverse effect on our business, results of operations and financial condition.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, forward-looking statements are inherently subject to known and unknown business, economic and other risks and uncertainties that may cause actual results to be materially different from those discussed in these forward-looking statements. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. We assume no obligation to update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report, other than as may be required by applicable law or regulation. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected.

You should read this Quarterly Report, the documents that we reference in this Quarterly Report and have filed with the SEC as exhibits and our Annual Report on Form 10-K for the year ended December 31, 2014 with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

Unless otherwise indicated, the terms Rubicon, the Company, we, us, and our refer to Rubicon Technology, Inc. our consolidated subsidiaries.

OVERVIEW

We are a vertically integrated, advanced electronic materials provider specializing in monocrystalline sapphire for applications in light-emitting diodes (LEDs), optical systems and specialty electronic devices. Sapphire is also used as an exterior component in mobile devices, specifically camera lens covers, dual flashes and home buttons on certain newer model smartphones and as the crystal covering the faces of certain smart watches. Sapphire was adopted for use on the home button on certain smartphones because of the scratch resistance and increased touch capacitance it offers, which are important characteristics to ensure the effectiveness of the fingerprint recognition security built into the

device. We believe that the use of fingerprint recognition security and other biometrics could become more prevalent in the future, which could become a strong growth driver for sapphire. In addition, some consumer electronics original equipment manufacturers (OEMs) are using full sapphire faceplates for smartphones, in limited volume. If sapphire smartphone faceplates were widely adopted, this would become the world s largest application for sapphire. We apply our proprietary crystal growth technology to produce high-quality sapphire products efficiently to supply both high-volume and niche end-markets, and we work closely with our customers to meet their quality and delivery needs.

Our largest product lines are:

sapphire cores, two to six inches in diameter, which our customers further process into wafers for use in LED applications and into components such as lens covers for mobile devices;

four and six-inch sapphire wafers that are used as substrates for the manufacture of LED chips and to a lesser extent for other semiconductor applications such as Silicon-on-Sapphire (SoS) Radio Frequency Integrated Circuits (RFICs);

four, six, and eight-inch patterned sapphire wafers (PSS) which are polished wafers that undergo additional processes of photolithography and dry plasma etching to produce a patterned surface which enhances LED light extraction efficiency (LEE); and

optical sapphire components in various shapes and sizes, including round and rectangular windows and blanks, domes, tubes and rods. These optical sapphire products are used in equipment for a wide variety of end markets, including defense and aerospace, medical devices, oil and gas drilling, semiconductor manufacturing and other markets.

The adoption of sapphire in mobile devices continued to expand with the introduction of new products such as the Apple watch, which has sapphire content, as do at least two other smart watches manufactured by others already in the market. In addition, Kyocera has introduced a new smartphone with a sapphire faceplate and a Chinese smartphone manufacturer has announced plans to do the same. However, the industry expectation was that at least one version of the iPhone 6 introduced in the third quarter of 2014 would have a sapphire faceplate. That did not happen and the subsequent bankruptcy filing by GT Advanced Technologies Inc. (GTAT) has raised considerable speculation on how the mobile device segment of the sapphire market will continue to evolve. It is difficult to determine the future impact of the GTAT bankruptcy on sapphire supply and demand as it is unknown what will be the disposition of their furnaces and sapphire inventory. While we do not know whether Apple has changed its overall strategy around sapphire, Apple and other mobile device manufacturers continue to expand the use of sapphire in more of their products. We expect this trend to continue, and this segment of the market has the potential to become the largest consumer of sapphire in a relatively short period of time. We have participated in the mobile device market and will continue to participate in that market.

Currently, the LED market remains the largest consumer of sapphire. For the LED market, we currently sell two to six-inch material in core form and four, six and eight-inch material in polished and PSS wafer form. Eight-inch wafers are sold primarily for customers research and development efforts at this time. We have the ability to produce cores and wafers of up to twelve inches in diameter to support production of chips for next-generation LED and other electronic applications. Larger sapphire also has current applications in the optical markets. In other semiconductor markets, we sell primarily six-inch wafers used in certain RFIC products.

We have been focusing our efforts on a newer product offering, patterned sapphire substrates or PSS . HB LED chip manufacturers etch a pattern onto the surface of the sapphire wafer in the early stages of their production process in order to improve light output. We have leveraged our capability in producing larger diameter sapphire wafers to offer pre-patterned, larger diameter (four-inch and six-inch) wafers to the LED market. PSS sales volumes are expected to increase later this year and into 2016.

We recognize research and development revenue in the period during which the related costs and fees are incurred.

Historically, a significant portion of our revenue has been derived from sales to relatively few customers. For the three months ended March 31, 2015, we had one customer that accounted for approximately 29% of our revenue and for the three months ended March 31, 2014, we had four customers that in aggregate accounted for approximately 57% of our revenue. Other than as discussed above, none of our customers accounted for more than 10% of our revenue for such periods. Although we are continuing to diversify and expand our customer base, we expect our revenue to continue to be concentrated among a small number of customers. We expect that our significant customers may change from period to period.

We recognize revenue based upon shipping terms with our customers and from our government contract as costs and fees are incurred. Delays in product orders or changes to the timing of shipments could cause our quarterly revenue to vary significantly. We derive a significant portion of our revenue from customers outside of the U.S. In most periods, the majority of our sales are to the Asian market and we expect that region to continue to be a major source of revenue for us. All of our revenue and corresponding accounts receivable are denominated in U.S. dollars.

We manufacture and ship our products from our facilities in the Chicago metropolitan area and from our facility in Penang, Malaysia. We have approximately 226,400 square feet of manufacturing and office space in Batavia, Franklin Park and Bensenville, Illinois and a 65,000 square foot facility in Penang, Malaysia, which processes sapphire grown by us in our Illinois facilities into finished cores and wafers. Our Malaysia facility currently finishes the majority of our core, wafer and PSS production. In March 2012, we acquired additional land in Batavia, Illinois to expand our

crystal growth capacity. We have not yet determined when we will begin construction on this facility. Our leased premises at 900 E. Green St., Bensenville, IL are subject to a foreclosure action brought by our property s mortgagee against, amongst other parties, the titleholder of the property. We, as a tenant of the property, are named as a defendant in the action. We do not anticipate that the action will result in us having to vacate the premises.

Our cost of goods sold consists primarily of manufacturing materials, labor, manufacturing-related overhead such as utilities, depreciation and rent, provisions for excess and obsolete inventory reserves, freight and warranties. We purchase materials and supplies to support such current and future demand. We are subject to variations in the cost of raw materials and consumables from period to period because we do not have long-term fixed-price agreements with most of our suppliers. We mitigate the potential impact of fluctuations in energy costs by entering into long-term purchase agreements. Once our current agreements expire, if electricity prices increase significantly, we may not be able to pass these price increases through to our customers on a timely basis, if at all, which could adversely affect our gross margins and results of operations.

Our operating expenses are comprised of sales and marketing, research and development (R&D), and general and administrative (G&A) expenses. G&A expenses consist primarily of salaries and associated costs for employees in finance, human resources, information technology and administrative activities, charges for accounting, legal, and insurance fees, and stock-based compensation. The majority of our stock-based compensation relates to administrative personnel and is accounted for as a G&A expense.

Other income (expense) consists of interest income, interest expense and realized gains and losses on investments and currency translation.

We account for income taxes under the asset and liability method whereby the expected future tax consequences of temporary differences between the book value and the tax basis of assets and liabilities are recognized as deferred tax assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to be recognized. Our analysis of ownership changes that limit the utilization of our net operating loss (NOL) carryforwards as of March 31, 2014, shows no ownership change. We believe that an updated analysis will not likely indicate an ownership change that would limit the utilization of net operating losses and tax credits at March 31, 2015. We are in a cumulative loss position for the past three years, which is considered significant negative evidence that is difficult to overcome on a more likely than not standard through objectively verifiable data. Based on an evaluation in accordance with the accounting standards, as of December 31, 2014, a valuation allowance has been recorded against the net U.S. deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all the available evidence. At March 31, 2015, we continue to be in a three year cumulative loss position therefore a full valuation allowance was provided and no tax benefit will be recorded until we can conclude that it is more likely than not that our deferred tax assets will be realized.

We anticipate our capital expenditures will be between $2.0 million to $7.0 million for the full year 2015. These expenditures will be primarily focused on investments in equipment to produce patterned sapphire substrates and to enhance our polishing platform. Our capital expenditures in the three months ended March 31, 2015 were $234,000.

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RESULTS OF CONSOLIDATED OPERATIONS THREE MONTHS ENDED March 31, 2015 AND 2014

The following table sets forth our consolidated statements of operations for the periods indicated:

	Three months ended March 31,	
	2015	2014
	(in millions)	
Revenue	$ 8.9	$ 14.3
Cost of goods sold	14.0	21.8
Gross loss	(5.1)	(7.5)
Operating expenses:		
General and administrative	2.1	2.4
Sales and marketing	0.3	0.4
Research and development	0.4	0.6
Total operating expenses	2.8	3.4
Loss from operations	(7.9)	(10.9)
Other income (expense)	(0.4)	
Loss before income taxes	(8.3)	(10.9)
Income tax expense		
Net loss	$ (8.3)	$ (10.9)

The following table sets forth our consolidated statements of operations as a percentage of revenue for the periods indicated:

e loss of bonuses this year, due largely to the recession and the financial strain on their employers. Because of the reduction in compens
peer group, our success in 2008 and our current financial condition, the Company felt that the use of current benchmarking data would
09. Therefore, in setting compensation for 2009, the compensation committee continued to rely on the Axiom market survey from early
percentile objectives for both base salary and total cash compensation for each NEO as it did in 2008.

our Executive Compensation Program

mpensation program currently consists of three components:

lary;

centives linked to corporate (and in some cases departmental and individual) performance, paid either in quarterly installments
he case of our Chief Executive Officer, annually; and

c grants of long-term stock-based compensation, such as stock options.

n philosophies with respect to each of these elements, including the basis for the compensation awarded to each of our executive officer n, although each element of compensation described below is considered separately, the compensation committee takes into account the ckage for each individual in its determination of each individual component of that package. The committee s philosophy is to put sign ompensation tied to performance, such as annual cash incentives based on measurable performance objectives and long-term incentives

f each of our NEOs is reviewed on an annual basis. With respect to each NEO, 2008 base salary was largely determined based on the g percentile of the market survey results for base salary compensation. While mindful of competitive factors in determining base salary f pensation philosophy places significant weight on those aspects of compensation tied to performance, such as annual cash incentives an form of stock options, as further described below. Generally, executive officer salary adjustments are effective as of the first quarter of

in 2008 for each of the NEOs, except Mr. Byers, met or exceeded the 60th percentile, based on the market survey results for base salary to 2009 base salaries, the compensation committee approved salaries exceeding the 60th percentile for Messrs. Bush, Cosinuke, and H although the base salary for Mr. Byers is still below the 60th percentile of the median of the companies surveyed, the significant increas flects the effort of the compensation committee to move his base salary toward the 60th percentile. The compensation committee intend ne for Mr. Byers as our annual revenue grows closer to the level of annual revenue of the companies in the Axiom market survey. Howe mmittee has not set a specific date as a deadline for achieving this objective.

le sets forth base salaries of our NEOs for 2008 and 2009 and the percentage increase in the salary for each NEO:

	2008 Salary(1)	2009 Salary
	$ 400,000	$ 420,000
	250,000	270,000
	250,000	255,000
ke	250,000	257,000
r	250,000	255,500
nald(2)	315,000	
n(3)		250,000

base salary during 2008 on an annualized basis. Due to the Company s payroll schedule, the amounts actually paid during slightly from these figures. For the amounts actually paid during 2008, please see Summary Compensation Table below.

nald resigned from his position as Chief Operating Officer and as an employee of the Company as of October 10, 2008.

n began his employment with the Company as its Executive Vice President and Chief Operating Officer on February 24, ugh Mr. Robinson does not qualify as a NEO for 2008, we anticipate that his compensation for 2009 will require his the proxy statement for the 2010 Annual Meeting of Stockholders, and are therefore providing data regarding his budgeted ensation for informational purposes.

Awards

centive awards for Messrs. Byers, Cosinuke, Hueber, and MacDonald and Ms. Brown were tied to the achievement of our company goa
are set forth in the corporate and growth scorecards described below. For 2008, cash incentive awards for Mr. Bush were tied to our A
l described below. Cash incentive awards were paid to Messrs. Byers, Cosinuke, Hueber, and MacDonald and Ms. Brown on a quarterly
mmittee set a bonus target amount for each of these executive officers that was equal to a specified percentage of their base salary, as se
tage was adjustable up or down based on our performance as measured against the corporate and growth scorecards. In 2008, the bonus
ted (upward or downward, as applicable) by 2% for every 1% of variance from the applicable scorecard target. The annual performance
s was based on a year-to-date corporate or growth scorecard value, as applicable, and the annual performance bonus for the fourth quart
ard values, as applicable, when those values are calculated. Our compensation committee approved the corporate and growth scorecard

card. 2008 cash incentive compensation for Mr. Byers and Mr. MacDonald was based on our corporate scorecard, with the exception th
s calculation did not include the booking portion of that scorecard. For 2008 our corporate scorecard was comprised of nine specific fin
e, stability, and client satisfaction metrics, as set forth below, and each metric was assigned a different percentage value of the overall s
of performance metrics were designed to capture all of the important operational and financial aspects of the organization and can be br

ancial metrics comprised 25% of the overall scorecard value and consisted of revenue targets and operating income targets.

owth metric comprised 25% of the overall scorecard value and consisted of the estimated value of new contracts, which we
as bookings.

ent performance metrics comprised 25% of the overall scorecard value and consisted of client days-in-accounts-receivable, or
he amount of client claims that are written off and not collected, and the ratio of items that we classify into work queues for our
attention to the number of items posted for our clients, which we refer to as the client work rate.

bility metrics comprised 10% of the overall scorecard value and consisted of the voluntary turnover rate and employee
ment, the latter of which is included for informational purposes and not counted toward the stability metric value.

ent satisfaction metric comprised 15% of the overall scorecard value and consisted of the client satisfaction rate.

nents of the corporate scorecard, other than the financial metrics that are discussed below, contain highly sensitive data such as service c
e all of our specific performance measures and targets, because we believe that such disclosure would result in serious competitive harr
each of the scorecards were designed to be challenging but attainable if we had what we considered to be a successful year. The elemen
recard have changed over time as we gain experience using them, and are likely to be adjusted in the future as well.

orecard for 2008 contained two financial metrics: total revenue and operating income. Our 2008 total revenue and operating income targ
w.

Q1 Target	Q1 Score	Q2 Target	Q2 Score	Q3 Target	Q3 Score	Q4 Target	Q4 Score	Annu Targ
$ 30.0 million	99.2%	$ 32.6 million	101.3%	$ 34.9 million	101.6%	$ 37.0 million	111.8%	$ 134.5 n
$ 2.2 million	116.3%	$ 3.6 million	108.3%	$ 5.8 million	78.5%	$ 7.6 million	86.3%	$ 19.2 n

nced performance targets should not be interpreted as a prediction of how we will perform in future periods. As described above, the pu
ablish a method for determining the payment of cash based incentive compensation. You are cautioned not to rely on these performance
future performance.

l bookings growth metric in the corporate scorecard and growth scorecard is highly sensitive data, we do not disclose the specific perfor
s metric because we believe that such disclosure would result in serious competitive harm. We set the targets for the bookings metric at
growth-oriented company and rely on bookings to help drive our growth. Additionally, the value associated at the time of booking was
we expected to receive from new clients which, in turn, was based on an estimate of what those clients total collections would be using
stimate based on an estimate, which means it was inherently volatile and cannot be used to predict actual revenue.

d. 2008 cash incentive compensation for Ms. Brown, Mr. Cosinuke, and Mr. Hueber was based on our growth scorecard. For 2008, our
mprised of ten specific financial, client satisfaction, operations, and employee-based metrics as set forth below, with each metric assign
of the overall scorecard value in similar fashion to the corporate scorecard discussed above. These categories of performance metrics w
growth aspects of the organization and can be broken down as follows:

ancial metrics comprised 45% of the overall scorecard value and consisted of bookings and cost of bookings targets, which is
l as spend as a percent of bookings.

ent satisfaction metric comprised 15% of the overall scorecard value and consisted of the client satisfaction rate and new client
tion.

erations metrics comprised 30% of the overall scorecard value and consisted of quarterly sales forecast accuracy; the number of
eetings with small and group practices; and the number of sales proposals delivered to small and group practices.

ployee-based metrics comprised 10% of the overall scorecard value and consisted of headcount forecast accuracy in sales,
ing, and service development areas; the voluntary turnover rate in sales, marketing, and service development areas; and
ee engagement, the last of which is included for informational purposes and not counted toward the employee-based metric

ents of the growth scorecard, other than the revenue metric which is discussed above, contain highly sensitive data, such as sales result
r specific performance measures and targets because we believe that such disclosure would result in serious competitive harm. We belie
h of the scorecards were designed to be challenging but attainable if we had what we considered to be a successful year. The elements i
have changed over time as we gain experience using them, and are likely to be adjusted in the future as well.

ve, in 2008 the bonus percentage earned was adjusted by 2% for every 1% of variance from the applicable scorecard target. For the 200
he end of the fourth quarter, the financial metrics were 96.4% of target, the growth metrics were 135.7% of target, the client performanc
he stability metrics were 97.4% of target, and the client satisfaction metrics were 96.3% of target. Overall, the 2008 corporate scorecar
number was 6.0% above target, the target bonus percentage for Mr. Byers was increased by 12%. Mr. MacDonald left the company pri
n the 2008 corporate scorecard as of the end of the third quarter. Overall, the 2008 corporate scorecard was 108% of target as of the en
t number was 8% above target, the target bonus percentage for Mr. MacDonald was increased by 16%. For the 2008 growth scorecard,
, the financial metrics were 135.2% of target, the client satisfaction metric was 102.8% of target, the operations metrics were 91.0% of
metrics were 109.4% of target. Overall, the 2008 growth scorecard was 114.5% of target, as of the end of the fourth quarter. Since that
et, the target bonus percentage for Ms. Brown, Mr. Cosinuke, and Mr. Hueber was increased by 29.0%.

ble contains the original and adjusted 2008 bonus target percentages for each of the following NEOs based on the amounts attributable t ate scorecard excluding bookings, and growth scorecard, as applicable:

	Bonus% at 100% Achievement of Corporate Scorecard Goals	**Bonus% As Adjusted for Corporate Scorecard Results (Through Q4 for Mr. Byers and Through Q3 for Mr. MacDonald)**	**Bonus% at 100% Achievement of Growth Scorecard Goals**	**(**
	60.0%	72.0%		
			60.0%	
ke			60.0%	
r			60.0%	
nald	70.0%	86.0%		

ome Scorecard. Our Chief Executive Officer s 2008 bonus was based primarily on the GAAP net income of the Company for 2008, ex lan and stock option plan expenses (Adjusted Net Income), which was $34.429 million. This goal was based on the compensation co s annual cash incentive compensation directly to our profitability. In reviewing Adjusted Net Income following the close of the 2008 f mmittee agreed to (1) exclude an extraordinary tax item realized in the fourth quarter, (2) add the amount of a loss due to an interest rate f America, N.A. to hedge interest rate risk under certain loans, and (3) add the expense associated with higher-than-budgeted sales comp anned bookings. The compensation committee agreed that the changes were appropriate to account for the financial implications of reas icipated when the target was set. Based on the Adjusted Net Income achievement in 2008, adjusted as set forth above, the compensation sh s bonus of $358,693. He was also granted a stock option to purchase 60,000 shares of Common Stock, which option was priced at fa).

npensation committee has discretion to award annual cash incentives when targets are not met, historically no discretion has been exerci mmittee in determining whether the targets described above have been achieved as the targets are objective.

rds

rs will receive cash incentive awards based on the 2009 corporate scorecard weighted at 50% and the 2009 G&A scorecard weighted at e and Hueber and Ms. Brown will receive cash incentive awards based on the 2009 corporate scorecard weighted at 50% and the 2009 g Mr. Robinson will receive cash incentive awards based on the 2009 corporate scorecard. Mr. Bush s 2009 cash incentive compensatio ome before Taxes of the Company for 2009, excluding expenses associated with stock option accounting and any expenses associated w te swap (Income Before Taxes). This incentive ranges from $86,000 to $420,000, depending on the level of Income Before Taxes. If 000, this would result in an incentive for Mr. Bush that places his total cash compensation at the 75% percentile. The compensation com h of 2009.

orate scorecard is comprised of the following measures: revenue weighted at 10%, operating income weighted at 15%, estimated one-ye ed at 25%, client satisfaction weighted at 15%, client days-in-accounts-receivable weighted at 10%, lost patient care revenue weighted a ed at 10%, and the employee voluntary turnover rate weighted at 10%.

A scorecard is comprised of the following measures: G&A as a percentage of revenue weighted at 20%, corporate employee engagemen eighted at 30%, corporate systems survey weighted at 5%, budget vs. actual headcount weighted at 10%, workdays to close the books

workdays to deliver key reporting weighted at 10%, sales contracts requiring legal intervention weighted at 5%, and the G&A employe
ghted at 10%.

vth scorecard is comprised of the following measures: estimated one-year value of new bookings weighted at 40%, cost of bookings wei
weighted at 7.5%, new client satisfaction weighted at 7.5%, new meetings for small and group at 8%, new proposals for small and grou
accuracy at 9%, and the growth division employee voluntary turnover rate weighted at 15%.

are as follows:

	Bonus% at 100% Achievement of Corporate Scorecard Goals (50% Weighting) and G&A Scorecard Goals (50% Weighting)	**Bonus% at 100% Achievement of Corporate Scorecard Goals (50% Weighting) and Growth Scorecard Goals (50% Weighting)**	**Bonus% at 100% Achievement of Corporate Scorecard Goals**
	60.0%		
		60.0%	
ke		60.0%	
r		70.0%	
on			70.0%

nents of the corporate, G&A, and growth scorecards contain highly sensitive data such as targeted revenue growth, estimated bookings,
we do not disclose specific performance measures and targets because we believe that such disclosure would result in serious competit
mmittee designed these targets within these scorecards to be challenging but attainable if we have what we consider to be a successful y
committee has discretion to award annual cash incentives when targets are not met, historically no discretion has been exercised by the
ermining whether the targets have been achieved as the targets are objective.

k-Based Compensation

mpensation program has historically consisted solely of stock options. Option grants made to executive officers are designed to provide
ute their responsibilities in such a way as to generate long-term benefit to us and our stockholders. Through possession of stock options
long-term results of their efforts, whether by appreciation of our company s value or the impact of business setbacks, either company-s
dditionally, stock options provide a means of promoting the retention of our executive officers, in that they are in almost all cases subje
period of time.

ovide executives with a significant and long-term interest in our success. By only rewarding the creation of stockholder value, we believ
ur NEOs with an effective risk and reward profile. Although it is our current practice to use stock options as our sole form of long-term
e compensation committee reviews this practice on an annual basis in light of our overall business strategy, existing market-competitive

granted periodically and are subject to vesting based on the executive s continued employment. Historically we have granted our exec
ncentive stock options that vest over a period of time and non-qualified stock options that are immediately exercisable but the shares issu
are subject to vesting. Incentive stock options were the primary type of stock options granted to our executive officers early in the com

rting in 2000, we granted non-qualified stock options that were immediately exercisable, because this approach enabled exercise prior t
advantages with regard to achieving stock ownership sooner and at a

r value of stock was lower. Most options vest evenly over four years, beginning on the date of the grant.

l public offering in September 2007, the exercise price of options was determined by our Board of Directors, with input from managem
riety of factors, including the nature and history of our business and our significant accomplishments and future prospects.

hares for which stock options granted to our NEOs are exercisable is determined by the compensation committee in its discretion. Grant
ut instead have historically been granted taking into account a mixture of the following qualitative factors: the executive s level of resp
ket for the executive s position; the executive s potential contribution to our growth; and the subjective assessment of the professional
e executive as determined by our Chief Executive Officer for our NEOs other than our Chief Executive Officer and by our compensation
ive Officer. Although the specific number of shares for which an option is exercisable is not attributable to any specific factor, we have
rmining the number of shares on trends in the competitive market for the executive s position and the executive s potential contribution

ger awards have typically been made to the NEOs that have areas of responsibility and function that are more likely to build long-term s
how directly linked their areas of responsibility and function are to the growth of the Company. Relative to other NEOs, larger awards
n in light of his responsibility and function.

2007, our compensation committee approved the following non-qualified stock option awards. The compensation committee approved
ueber, and MacDonald and Ms. Brown as part of the annual performance review taking into account the recommendations of our Chief
ere based on his subjective assessment of the professional effectiveness and capabilities of these executives, the nature and scope of the
d the number of unvested options remaining to each individual. The awards for Messrs. Byers, Hueber, and MacDonald and Ms. Brown
08. The compensation committee approved Mr. Cosinuke s award in connection with his hiring, taking into account the recommendati
r, which was based on his subjective assessment that such an award was necessary to remain competitive with other prospective employ
award was granted as of January 2, 2008. All of the awards were granted with an exercise price per share equal to the closing market pri
n the NASDAQ Global Market on the respective grant date.

	Number of Shares	**Exercis**
	45,000	$
	30,000	
ke	150,000	
r	20,000	
nald	40,000	

2008, our compensation committee approved the following non-qualified stock option awards. These awards were premised on the fact
, the Board of Directors approved amendments to the employment agreements of Messrs. Bush and Byers, which provided that the Com
ns to purchase 120,000 and 30,000 shares of Common Stock, respectively, if the Company achieved a positive net income for three cons
llion or more of cash, cash equivalents, and short-term investments on hand. Messrs. Bush and Byers s options would, if the grant conc
ere made, begin vesting on January 1, 2001, and would vest fully over four years. On February 15, 2008, the compensation committee d
quarter of 2007, the Company achieved a positive net income for three consecutive months and during that time retained at least $10.0
ts. Pursuant to their employment agreements, Messrs. Bush and Byers were granted the awards as of March 3, 2008, with an exercise p
ng market price per share of Common Stock on the NASDAQ Global Market on that date.

	Number of Shares	Exercise
	120,000	$
	30,000	

February 15, 2008, the compensation committee approved the grant of a non-qualified stock option to purchase 49,500 shares of Comm
ward was based upon the Company s performance against its 2007 goal for annual earnings before interest, taxes, depreciation, and amo
based compensation expense (Adjusted EBITDA). This goal was based on the compensation committee s interest in linking Mr. Bu
ectly to our profitability. Based on the Adjusted EBITDA achievement in 2007, the compensation committee granted Mr. Bush s award
ercise price per share of $32.72, the closing market price per share of Common Stock on the NASDAQ Global Market on that date.

2009, our compensation committee approved the following stock option awards. The compensation committee approved awards for Me
ueber and Ms. Brown as part of the annual performance review, taking into account the recommendations of our Chief Executive Office
bjective assessment of the professional effectiveness and capabilities of these executives, the nature and scope of their areas of respons
ted options remaining to each individual. The compensation committee approved Mr. Bush s award based upon the compensation comm
performance in 2008. The compensation committee approved Mr. Robinson s award in connection with his hiring, taking into account
of our Chief Executive Officer, which was based on his subjective assessment that such an award was necessary to remain competitive
oyers. All of the awards were granted as of March 2, 2009, with an exercise price per share equal to the closing market price per share o
SDAQ Global Select Market on that date.

	Number of Incentive Stock Options	Number of Non-Qualified Stock Options	Exercise
	15,580	44,420	$
	15,580	14,420	
	15,580	14,420	
ke	15,580	14,420	
r	15,580	24,420	
on	0	210,000	

stock options as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the Internal Revenue C
ations contained in the Internal Revenue Code, and we may, in the future, grant non-qualified stock options. Generally, for stock options
ve stock options, we are entitled to a tax deduction in the year in which the stock options are exercised equal to the spread between the
of the stock for which the stock option was exercised. The holders of the non-qualified stock options are generally taxed on this same a
For stock options that qualify as incentive stock options, we do not receive a tax deduction, and the holder of the stock option may recei
tment than he or she would receive for a non-qualified stock option. We may choose to grant incentive stock options in order to provide
r executives and because of the limited expected benefits to our company of the potential tax deductions as a result of our historical net

y Grants

grant policy formalizes our process for granting equity-based awards to officers and employees. Under our equity award grant policy, a
ur compensation committee or Chief Executive Officer. All stock options will be awarded at fair value and calculated based on our clos

he grant date. Under our equity award grant policy, equity awards will only be granted on the first business day of any month, as follow

made in conjunction with the hiring of a new employee or the promotion of an existing employee will be made on the first
day of the month following the later of (1) the hire date or the promotion date or (2) the date on which such grant is
ed; and

made to existing employees other than in connection with a promotion will be made, if at all, on an annual basis.

7, our Board of Directors delegated authority to our Chief Executive Officer to make equity grants of up to 50,000 shares to employees
r Section 16 officers. All grants of equity to Section 16 officers or non-employees or grants of 50,000 shares or more require approval o
mmittee.

ollowing benefits to our executive officers on the same basis as the benefits provided to all employees:

dental, and vision insurance;

urance;

nd long-term disability; and

plan.

e consistent with those offered by other companies and specifically with those companies with which we compete for employees.

007, we now provide a qualified matching contribution to each employee, including our executive officers, who participate in our 401(k
provides a match of one-third of contributions up to 6% of eligible compensation.

reements and Change of Control Arrangements

We are party to an employment agreement with Jonathan Bush for the position of Chief Executive Officer. The agreement provides for
a base annual salary subject to annual review. Mr. Bush currently receives a base salary of $420,000. Mr. Bush is eligible to participate
he extent that he is eligible for those plans, on the same terms as other similarly situated executive officers of the Company. He is also
d above.

We are party to an employment agreement with Carl B. Byers for the position of Chief Financial Officer. The agreement provides for at-
nual salary subject to annual review. Mr. Byers currently receives a base salary of $270,000. Mr. Byers is eligible to participate in our e
nt that he is eligible for those plans, on the same terms as other similarly situated executive officers of the Company and is eligible for a

We are party to an employment agreement with Nancy G. Brown for the position of SVP, Business Development & Government Affa
es for at-will employment and for a base annual salary subject to annual review. Ms. Brown currently receives a base salary of $255,00
pate in our employee benefit plans, to the extent that she is eligible for those plans, on the same terms as other similarly situated executi
eligible for a bonus as described above. The agreement provides for a severance equal to the severance amount paid to other senior man

ke. We are party to an employment agreement with Robert L. Cosinuke for the position of Chief Marketing Officer. The agreement pro
for a base annual salary subject to annual review. Mr. Cosinuke currently receives a base salary of $257,000. Mr. Cosinuke is eligible

30

ur employee benefit plans, to the extent that he is eligible for those plans, on the same terms as other similarly situated executive office eligible for a bonus as described above.

r. We are party to an employment agreement with Robert M. Hueber for the position of SVP, Sales. The agreement provides for at-wil nual salary subject to annual review. Mr. Hueber currently receives a base salary of $255,500. Mr. Hueber is eligible to participate in ou he extent that he is eligible for those plans, on the same terms as other similarly situated executive officers of the Company and is eligib The agreement provides for a severance equal to the severance amount paid to other senior management upon termination.

nald. We were party to an employment agreement with James M. MacDonald for the position of Chief Operating Officer. The agreem ent. The agreement provided for a base salary subject to annual review and a onetime grant of a stock option to purchase 330,000 shares onald s base salary in 2008 was $315,000. Mr. MacDonald resigned from his position as Chief Operating Officer and as an employee 08.

n. We are party to an employment agreement with David E. Robinson for the position of Chief Operating Officer. The agreement prov n a base salary subject to annual review and a one-time grant of an option to purchase 210,000 shares of Common Stock. Mr. Robinson the Company on February 24, 2009, with a base salary of $250,000, and is eligible for a bonus as described above. If Mr. Robinson s first year, the Company is obligated to pay any unpaid portion of his housing allowance, which is for expenses actually incurred, up to

lans

rized for Issuance under Equity Compensation Plans

le sets forth information regarding our equity compensation plans in effect as of December 31, 2008. Each of our equity compensation it plan as defined by Rule 405 of Regulation C of the Securities Act.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)**	**Number of Sec Remaining Ava for Future Issu Under Equity Com Plans (Excluding S Reflected in Colu (c)**
tion plans approved by security holders	2,950,872(1)	$ 16.02	
tion plans not approved by security			
	2,950,872	$ 16.02	

t includes 1,273,292 shares issuable upon the exercise of outstanding stock options granted under the 2007 Option Plan 80 shares issuable upon the exercise of outstanding stock options granted under the 2000 Option Plan.

t includes 563,197 shares available for issuance pursuant to equity awards that could be granted in the future under the n Plan and 488,436 shares available for issuance pursuant to equity awards that could be granted in the future under the The number of shares available under the 2007 Option Plan are automatically adjusted each January 1, as more fully

elow in 2007 Stock Option and Incentive Plan.

on and Incentive Plan

Option and Incentive Plan, or 2007 Option Plan, was adopted by our Board of Directors and approved by our stockholders in 2007. The
o make grants of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock a
k awards, cash-based awards, performance shares, and dividend equivalent rights. We initially reserved 1,000,000 shares of Common St
ds under the 2007 Option Plan. The 2007 Option Plan provides that the number of shares reserved and available for issuance under the p
rease each January 1, beginning in 2008, by an additional number of shares which is equal to the lower of (1) that number of shares as i
ber of shares reserved and available for issuance under the plan (excluding shares reserved for issuance pursuant to awards outstanding
ercent of the outstanding number of shares of stock on the immediately preceding December 31 and (2) such lower number of shares as
r Board of Directors. Notwithstanding the foregoing, in no event will more than 20,000,000 shares be issued under the 2007 Option Pla

hares reserved for issuance under the 2007 Option Plan is subject to adjustment in the event of a stock split, stock dividend, or other cha
enerally, shares that are forfeited or canceled from awards under the 2007 Option Plan also will be available for future awards.

Plan is administered by the compensation committee. The administrator has full power and authority to select the participants to whom
any combination of awards to participants, to accelerate the exercisability or vesting of any award, and to determine the specific terms a
ct to the provisions of the 2007 Option Plan.

part-time officers, employees, non-employee directors, and other key persons (including consultants and prospective employees) are eli
2007 Option Plan, subject to the discretion of the administrator. There are certain limits on the number of awards that may be granted u
example, no more than 2,000,000 shares of Common Stock may be granted in the form of stock options or stock appreciation rights to a
any one-calendar-year period.

e of stock options awarded under the 2007 Option Plan may not be less than the fair value of Common Stock on the date of the option g
ay not exceed ten years from the date of grant. The administrator will determine at what time or times each option may be exercised and
2007 Option Plan, the period of time, if any, after retirement, death, disability, or other termination of employment during which option

entive options, stock options must meet additional federal tax requirements, including a $100,000 limit on the value of shares subject to
become exercisable in any one calendar year, and a shorter term and higher minimum exercise price in the case of certain large stockho

n rights may be granted under our 2007 Option Plan. Stock appreciation rights allow the recipient to receive the appreciation in the fair
etween the exercise date and the date of grant. The administrator determines the terms of stock appreciation rights, including when such
whether to pay the increased appreciation in cash or with shares of Common Stock, or a combination thereof.

may be granted under our 2007 Option Plan. Restricted stock awards are shares of Common Stock that vest in accordance with terms an
e administrator. The administrator will determine the number of shares of restricted stock granted to any employee. The administrator m
ons to vesting it determines to be appropriate. For example, the administrator may set restrictions based on the achievement of specific p
estricted stock that do not vest are subject to our right of repurchase or forfeiture.

estricted stock awards may be granted under our 2007 Option Plan. Deferred stock awards are units entitling the recipient to receive sha
basis, and are subject

ns and conditions as the administrator shall determine. Our 2007 Option Plan also gives the administrator discretion to grant stock award

ent rights may be granted under our 2007 Option Plan. Dividend equivalent rights are awards entitling the grantee to current or deferred
specified number of shares of stock. Dividend equivalent rights may be settled in cash or shares and are subject to other conditions as t

ds may be granted under our 2007 Option Plan. Each cash-based award shall specify a cash-denominated payment amount, formula, or
the administrator. Payment, if any, with respect to a cash-based award may be made in cash or in shares of stock, as the administrator d

es may be granted under our 2007 Option Plan. Performance shares are awards entitling the recipient to acquire shares of Common Sto
cified performance goals. The administrator determines performance goals during a performance cycle based upon performance criteria

istrator provides otherwise, our 2007 Option Plan does not allow for the transfer of awards, and only the recipient of an award may exer
lifetime.

merger, sale, or dissolution, or a similar sale event, unless assumed or substituted, all stock options and stock appreciation rights gran
automatically become fully exercisable, all other awards granted under the 2007 Option Plan will become fully vested and non-forfeitab
nd restrictions relating to the attainment of performance goals may become vested and non-forfeitable in connection with a sale event, i
discretion. In addition, upon the effective time of any such sale event, the 2007 Option Plan and all awards will terminate unless the part
eir discretion, provide for appropriate substitutions or assumptions of outstanding awards. Any award so assumed or continued or substi
nd exercisable in full upon the date on which the grantee s employment or service relationship with us terminates if such termination oc
uch sale event and (2) such termination is by us or a successor entity without cause or by the grantee for good reason.

e granted under the 2007 Option Plan after August 2017. In addition, our Board of Directors may amend or discontinue the 2007 Optio
inistrator may amend or cancel any outstanding award for the purpose of satisfying changes in law or for any other lawful purpose. No
adversely affect the rights under any outstanding award without the holder s consent. Other than in the event of a necessary adjustment
our stock or a merger or similar transaction, the administrator may not reprice or otherwise reduce the exercise price of outstanding s
n rights. Further, amendments to the 2007 Option Plan will be subject to approval by our stockholders if the amendment (1) increases th
or issuance under the 2007 Option Plan; (2) expands the types of awards available under, the eligibility to participate in, or the duration
materially changes the method of determining fair value for purposes of the 2007 Option Plan; (4) is required by the NASDAQ Global S
quired by the Internal Revenue Code to ensure that incentive options are tax-qualified.

tock Purchase Plan

yee Stock Purchase Plan, or 2007 ESPP, was adopted by our Board of Directors and approved by our stockholders in 2007. We have res
f Common Stock for issuance to participating employees under the 2007 ESPP.

yees, including our directors who are employees and all employees of any of our participating subsidiaries, who are employees on the fi
nd whose customary employment is for more than twenty hours a week are eligible to participate in the 2007 ESPP. Employees who wo
shares under the 2007 ESPP, own 5% or more of the total combined voting power or value of Common Stock are not eligible to particip

nake offerings to our employees to purchase stock under the 2007 ESPP. The first offering began on March 1, 2008, and ended on Augu
ings begin on each March 1 and September 1, or the first business day thereafter, and end on the last business day occurring on or befor
ebruary 28 or 29, respectively. During each offering period, payroll deductions are made and held for the purchase of Common Stock at

f a designated payroll deduction period, or offering period, we will grant to each eligible employee who has elected to participate in the
e shares of Common Stock. The employee may authorize deductions from 1% to 10% of his or her compensation for each payroll perio
up to a total maximum of $12,500). On the last day of the offering period, the employee will be deemed to have exercised the option, at
the extent of accumulated payroll deductions. Under the terms of the 2007 ESPP, the purchase price for each share purchased under eac
of the fair market value of Common Stock on the first day or the last day of the offering period. An employee may not sell, exchange, a
te, transfer, pledge, or otherwise dispose of any shares of Common Stock until the one-year anniversary of the option exercise for such s

o is not a participant on the last day of the offering period will not be entitled to exercise any option under the 2007 ESPP, and the empl
roll deductions will be refunded. An employee s rights under the 2007 ESPP will terminate upon voluntary withdrawal from the 2007 E
he end of an offering period, or when the employee ceases employment for any reason, except that upon termination of employment bec
employee s account will be paid to the employee s beneficiary.

the Company executed an amendment to the 2007 ESPP allowing for employees of its Indian subsidiary, athenahealth Technology Priv
India Private Limited) to participate in the 2007 ESPP.

on and Incentive Plan

Option and Incentive Plan, or 2000 Option Plan, was adopted by our Board of Directors in January 2000 and approved by our stockhold
ed 5,834,181 shares of Common Stock for the issuance of awards under the 2000 Option Plan.

Plan is administered by our Board of Directors. Our Board of Directors has the authority to delegate full power and authority to a comm
rs to select the individuals to whom awards will be granted, to make any combination of awards to participants, to accelerate the exercis
provide substitute awards, and to determine the specific terms and conditions of each award, subject to the provisions of the 2000 Optio

Plan permits us to make grants of incentive stock options, non-qualified stock options, restricted stock awards, and any other stock-bas
es, directors, consultants, and advisors. Stock options granted under the 2000 Option Plan have a maximum term of ten years from the d
ptions granted under that Plan have an exercise price of no less than the fair value of Common Stock on the date of grant.

ion of the Company in which all awards are not assumed or substituted by the successor entity, all outstanding awards, unless otherwise
ll remain our obligation, and there shall be automatically substituted for the shares of Common Stock then subject to such awards either
able with respect to the outstanding shares of Common Stock in connection with the sale event, (2) shares of stock of the surviving or a
) such other securities as the Board of Directors deems appropriate (the fair value of which as determined by the Board of Directors in
not materially differ from the fair value of the shares of Common Stock subject to such awards immediately preceding the sale event),
he unvested awards shall become accelerated by a period of one year. Under the 2000 Option Plan, a sale event is defined as (a) the sale
ger in which our stockholders, in their capacity as such, no longer own a majority

g equity securities of the Company (or its successor); (b) any sale of all or substantially all of the assets or capital stock of the Company r transaction); or (c) any other acquisition of the business of the Company, as determined by the Board of Directors.

ectors does not intend to grant any further awards under the 2000 Option Plan.

pensation

ble sets forth summary information concerning the compensation paid or earned for services rendered to the Company in all capacities t fficer, chief financial officer, the other three most highly compensated persons serving as executive officers as of December 31, 2008, a been among the our three other top compensated executive officers but for the fact that he was no longer an executive officer at the end

Summary Compensation Table(1)

ipal Position	Year (b)	Salary($) (c)	Bonus($) (d)	Option Awards ($)(2) (f)	Non-Equity Incentive Plan Compensation ($)(3) (g)	All Other Compensation ($) (i)
	2008	398,077		337,305(4)	358,693	
Officer,	2007	348,077	100,000(5)	108,000(4)	235,000	
hairman of	2006	298,077		22,521(4)	59,400	
	2008	249,615		213,231(6)	180,000	3,916(7)
dent,	2007	238,462		16,849(6)	104,180	554(7)
Officer,	2006	199,039	30,000(8)	4,361(6)		
(9)	2008	247,692		137,300(10)	222,500	3,324(11)
dent of						
pment and Government Affairs						
ke(9)	2008	250,000		755,642(12)	222,500	1,069(13)
dent,						
Officer						
r(9)	2008	250,000	72,000(14)	103,468(15)	186,500	5,166(16)
dent, Sales						
nald	2008	253,846		527,289(17)	207,795	5,166(18)
e Vice	2007	300,000	53,308(19)	383,097(17)	161,336	775(18)
ief	2006	75,000	53,308(19)	98,098(17)	14,850	
r						

lisclosing compensation under the headings Stock Awards and Change In Pension Value And Nonqualified Deferred tion Earnings are not included because no compensation in these categories was awarded to, earned by, or paid to our cutive officers in 2008, 2007, or 2006. The compensation in this table also does not include certain perquisites and other enefits received by the named executive officers that did not exceed $10,000 in the aggregate during 2008, 2007, or 2006.

ounts represent stock-based compensation expense for stock option awards granted to each of Messrs. Bush, Byers, Hueber, and MacDonald and Ms. Brown as described in footnotes 4, 6, 10, 12, 15, and 17 below. Stock-based compensation or these awards was calculated in accordance with SFAS No. 123(R) and is being amortized over the vesting period of the ards. The amounts reflected in this table exclude the estimate of forfeitures applied by us under SFAS No. 123(R) when g stock-based compensation expense for financial statement reporting purposes in fiscal

2007, and 2006. The assumptions used to calculate the value of option awards are set forth in the Section entitled
sed Compensation under Item 7 included in the Company s Annual Report on Form 10-K for the year ended December 31,
stock option awards granted to each of the above named officers prior to 2006 were accounted for in accordance with APB
o. 25 and were granted at exercise prices equal to fair value on the date of grant. Accordingly, there was no stock-based
ion expense associated with the awards granted prior to 2006 that was incurred in 2008, 2007, or 2006.

hown in this column for 2008 represent annual and quarterly cash incentive awards, as applicable, earned during the fiscal
l December 31, 2008, and paid in part in 2008 and in part in 2009. Amounts shown in this column for 2007 represent annual
rly cash incentive awards, as applicable, earned during the fiscal year ended December 31, 2007, and paid in part in 2007
in 2008 and includes performance based incentive awards paid pursuant to employment agreements in the cases of
ush and Byers. Amounts shown in this column for 2006 represent annual and quarterly cash incentive awards, as applicable,
ing the fiscal year ended December 31, 2006, and paid in part in 2006 and in part in 2007.

s stock-based compensation expense recognized as described in footnote 2 above, as follows:

Number of Shares of Stock or Units	Grant Date	Vesting Start Date	Exercise Price	2008 Expense	2007 Expense
49,500	3/3/08	1/7/08	$ 32.72	$ 206,506	$
45,000	3/15/07	1/1/07	$ 7.39	55,857	55,703
50,000	7/27/06	7/27/06	$ 6.16	74,942	52,297
				$ 337,305	$ 108,000

awards granted are subject to vesting at the rate of 25% on the first anniversary of the vesting start date, and the remainder
nually at a rate of 25% per year. At December 31, 2008, there was approximately $829,684 of unamortized stock-based
ion expense for the above awards, excluding our estimate of forfeitures, which will be amortized over the remaining vesting
the above awards.

s an annual cash bonus award earned during the fiscal year ended December 31, 2007, and paid in 2008.

s stock-based compensation expense recognized as described in footnote 2 above, as follows:

Number of Shares of Stock or Units	Grant Date	Vesting Start Date	Exercise Price	2008 Expense	2007 Expense
45,000	2/1/08	1/7/08	$ 33.24	$ 191,986	$
10,000	3/15/07	1/1/07	$ 7.39	12,413	12,37
5,000	2/28/06	1/9/06	$ 5.26	8,832	4,47
				$ 213,231	$ 16,84

awards granted are subject to vesting at the rate of 25% on the first anniversary of the vesting start date, and the remainder
nually at a rate of 25% per year. At December 31, 2008, there was approximately $620,372 of unamortized stock-based
ion expense for the above awards, excluding our estimate of forfeitures, which will be amortized over the remaining vesting
the above awards.

nt shown for 2008 represents matching contributions under a 401(k) compensation plan in the aggregate amount of $3,916.
nt shown for 2007 represents matching contributions under a 401(k) compensation plan in the aggregate amount of $554.

s an annual cash bonus award earned during the fiscal year ended December 31, 2006, and paid in 2007.

osinuke and Hueber and Ms. Brown were not named executive officers in fiscal year 2007 and 2006, and therefore no
n is presented for these years.

s stock-based compensation expense recognized as described in footnote 2 above, as follows:

Number of Shares of Stock or Units	Grant Date	Vesting Start Date	Exercise Price
30,000	2/1/08	1/7/08	$ 33.24
7,500	3/15/07	1/1/07	$ 7.39

n awards granted are subject to vesting at the rate of 25% on the first anniversary of the vesting start date, and the remainder
nually at a rate of 25% per year. At December 31, 2008, there was approximately $412,599 of unamortized stock-based
ion expense for the above awards, excluding our estimate of forfeitures, which will be amortized over the remaining vesting
the above awards.

s matching contributions under a 401(k) compensation plan in the aggregate amount of $3,324 for fiscal 2008.

s stock-based compensation expense recognized as described in footnote 2 above, as follows:

Number of Shares of Stock or Units	Grant Date	Vesting Start Date	Exercise Price
150,000	1/2/08	12/3/07	$ 35.26

n award granted on January 2, 2008, is subject to vesting at the rate of 25% on the first anniversary of the vesting start date,
mainder vesting annually at a rate of 25% per year. At December 31, 2008, there was approximately $2,051,578 of
ed stock-based compensation expense for the above award, excluding our estimate of forfeitures, which will be amortized
maining vesting period of the above award.

s matching contributions under a 401(k) compensation plan in the aggregate amount of $1,609 for fiscal 2008.

s monthly cash bonus awards earned as a draw during the fiscal year ended December 31, 2008, and paid in part in 2008 and
2009.

s stock-based compensation expense recognized as described in footnote 2 above, as follows:

Number of Shares of Stock or Units	Grant Date	Vesting Start Date	Exercise Price
20,000	2/1/08	1/7/08	$ 33.24
7,500	3/15/07	1/1/07	$ 7.39
5,000	2/28/06	1/9/06	$ 5.26

n awards granted are subject to vesting at the rate of 25% on the first anniversary of the vesting start date, and the remainder nually at a rate of 25% per year. At December 31, 2008, there was approximately $285,862 of unamortized stock-based ion expense for the above awards, excluding our estimate of forfeitures, which will be amortized over the remaining vesting the above awards.

s matching contributions under a 401(k) compensation plan in the aggregate amount of $5,166 for fiscal 2008.

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s stock-based compensation expense recognized as described in footnote 2 above, as follows:

Number of Shares of Stock or Units	Grant Date	Vesting Start Date	Exercise Price	2008 Expense	2007 Expense
40,000	2/1/08	1/7/08	$ 33.24	$ 131,595	$
11,500	3/15/07	1/1/07	$ 7.39	11,070	14,235
330,000	11/3/06	9/25/06	$ 6.58	384,624	368,862
				$ 527,289	$ 383,097

n awards granted ceased vesting as of October 10, 2008, which was Mr. MacDonald s last day of employment with the At December 31, 2008, there was no unamortized stock-based compensation expense for the above awards.

nt shown for 2008 represents matching contributions under a 401(k) compensation plan in the aggregate amount of $5,166. nt shown for 2007 represents matching contributions under a 401(k) compensation plan in the aggregate amount of $775.

s a bonus to compensate Mr. MacDonald in part for the cost to him associated with the timing of his transition to the from his prior employer and paid to him in 2007 and 2008.

Based Awards

ble sets forth information concerning the non-equity incentive plan awards and stock option grants made to each of the NEOs during the 31, 2008, pursuant to the Company s 2000 and 2007 Stock Option and Incentive Plans.

Grants of Plan-Based Awards 2008(1)

	Grant Date (b)	**Compensation Committee Action Date**	**Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2) Threshold ($)(3) (c)**	**Target ($) (d)**	**Maximum ($)(3) (e)**	**All Other Option Awards: Number of Securities Underlying Options (#)(4) (j)**	**Exercise or Base Price of Option Awards ($/Sh) (k)**
	3/3/2008	2/15/2008		$		49,500(6)	$ 32.72
	3/3/2008	2/15/2008				120,000(7)	32.72
			86,000		400,000		
	2/1/2008	12/9/2007				45,000(8)	33.24
	3/3/2008	2/15/2008				30,000(9)	32.72
				37,500			
				37,500			
				37,500			
				37,500			
	2/1/2008	12/9/2007				30,000(10)	33.24
				37,500			
				37,500			
				37,500			
				37,500			
ke	1/2/2008	12/9/2007				150,000(11)	35.26
				37,500			
				37,500			
				37,500			
				37,500			
r	2/1/2008	12/9/2007				20,000(12)	33.24
				37,500			
				37,500			
				37,500			
				37,500			
onald	2/1/2008	12/9/2007				40,000(13)	33.24
				55,125			
				55,125			
				55,125			

lisclosing grants of plan-based awards under the heading All Other Stock Awards: Number of Shares of Stock or Units and d Future Payouts Under Equity Incentive Plan Awards are not included in this table because no plan-based grants in this vere granted to our named executive officers in 2008.

s cash incentive awards for 2008 that are paid quarterly or annually, as applicable. The awards are described in more detail ne section entitled Cash Incentives Awards 2008 Awards.

no thresholds or maximums for our Estimated Possible Payouts Under Non-Equity Incentive Plan Awards, with the of the award for Mr. Bush, who has a threshold and maximum based on Adjusted Net Income, which is described in detail ne section entitled Cash Incentives 2008 Awards.

s equity incentive awards granted in 2008. The awards are described in more detail above in the section entitled Long-Term ed Compensation.

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nts reported in this column reflect the grant date fair value of those awards computed in accordance with SFAS No. 123(R).

s a non-qualified option award to purchase 49,500 shares of Common Stock at an exercise price of $32.72 per share, granted
h on March 3, 2008. The option award is subject to vesting at the rate of 25% on the first anniversary of the vesting start
5% on the next three anniversaries thereafter.

s a non-qualified option award to purchase 120,000 shares of Common Stock at an exercise price of $32.72 per share,
Mr. Bush on March 3, 2008. On January 16, 2002, the Board of Directors approved a grant to Mr. Bush of an option to
20,000 shares of Common Stock subject to the Company s achievement of certain financial goals. This option was awarded
h on March 3, 2008, upon the determination that certain of these financial goals were achieved during the fourth quarter of
option fully vests over four years and has a vesting start date of January 1, 2001. As a result, the option is fully vested and
e as of the date of grant, March 3, 2008.

s a non-qualified option award to purchase 45,000 shares of Common Stock at an exercise price of $33.24 per share, granted
ers on February 1, 2008. The option award is subject to vesting at the rate of 25% on the first anniversary of the vesting start
5% on the next three anniversaries thereafter.

s a non-qualified option award to purchase 30,000 shares of Common Stock at an exercise price of $32.72 per share, granted
ers on March 3, 2008. On January 16, 2002, the Board of Directors approved a grant to Mr. Byers of an option to purchase
ares of Common Stock subject to the Company s achievement of certain financial goals. This option was awarded to
on March 3, 2008, upon the determination that certain of these financial goals were achieved during the fourth quarter of
option fully vests over four years and has a vesting start date of January 1, 2001. As a result, the option is fully vested and
e as of the date of grant, March 3, 2008.

s a non-qualified option award to purchase 30,000 shares of Common Stock at an exercise price of $33.24 per share, granted
own on February 1, 2008. The option award is subject to vesting at the rate of 25% on the first anniversary of the vesting
and 25% on the next three anniversaries thereafter.

s a non-qualified option award to purchase 150,000 shares of Common Stock at an exercise price of $35.26 per share,
Mr. Cosinuke on January 2, 2008. The option award is subject to vesting at the rate of 25% on the first anniversary of the
rt date and 25% on the next three anniversaries thereafter.

s a non-qualified option award to purchase 20,000 shares of Common Stock at an exercise price of $33.24 per share, granted
eber on February 1, 2008. The option award is subject to vesting at the rate of 25% on the first anniversary of the vesting
and 25% on the next three anniversaries thereafter.

s a non-qualified option award to purchase 40,000 shares of Common Stock at an exercise price of $33.24 per share, granted
cDonald on February 1, 2008. This option award ceased vesting as of October 10, 2008, which was Mr. MacDonald s last
ployment with the Company.

uity Awards

and Unexercised Option Holdings. The following table sets forth certain information regarding the number and value of options exerc
ecember 31, 2008, and the number and value of unexercised options held by each of the NEOs as of December 31, 2008.

Outstanding Equity Awards at Fiscal Year-End 2008(1)

	Option Awards		
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price($) (e)
	32,500(2)		$ 0.62
	26,500(3)		0.62
	73,276(4)		0.62
	57,753(5)		0.62
	7,000(6)		3.50
	199,876(7)		3.50
	45,625(8)		6.16
	45,000(9)		7.39
		49,500(10)	32.72
	120,000(11)		32.72
	5,000(12)		3.50
	5,000(13)		5.26
	10,000(14)		7.39
		45,000(15)	33.24
	30,000(16)		32.72
	7,500(17)		7.39
		30,000(18)	33.24
ke	37,500(19)	112,500(19)	35.26
r	119,325(20)		0.62
	10,000(21)		0.62
	10,000(22)		0.62
	10,000(23)		2.93
	25,000(24)		2.93
	20,000(25)		2.93
	5,000(26)		3.50
	20,000(27)		4.51
	5,000(28)		5.26
	7,500(29)		7.39
		20,000(30)	33.24

onald

lisclosing outstanding equity awards at fiscal year-end under the headings Equity Incentive Plan Awards: Number of Underlying Unexercised Unearned Options, Number of Shares or Units of Stock That Have Not Vested, Market Value of Units of Stock That Have Not Vested, Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights Not Vested, and Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Vested are not included in this table because no equity awards were outstanding in these categories for the fiscal year ending

qualified stock option was 100% exercisable on March 18, 2001, and 100% vested as of February 1, 2005.

ualified stock option was 100% exercisable on August 1, 2003, and 100% vested as of January 1, 2007.

ualified stock option was 100% exercisable on August 1, 2003, and 100% vested as of July 1, 2007.

ualified stock option was 100% exercisable on February 6, 2004, and 100% vested as of February 1, 2008.

ualified stock option was 100% exercisable on April 27, 2005, and 100% vested on January 9, 2009.

ualified stock option was 100% exercisable on April 27, 2005, and 25% of the award vested as of April 27, 2006, with the vesting annually at the rate of 25% per year.

ualified stock option was 100% exercisable on July 27, 2006, and 25% of the award vested as of July 27, 2007, with the vesting annually at the rate of 25% per year.

ualified stock option was 100% exercisable on March 15, 2007, and 25% of the award vested as of January 1, 2008, with der vesting annually at the rate of 25% per year.

s non-qualified stock option vested on January 7, 2009, with the remainder vesting annually at the rate of 25% per year.

ualified stock option was 100% vested and exercisable as of March 3, 2008.

ualified stock option was 100% exercisable on April 27, 2005, and 100% vested on January 9, 2009.

ualified stock option was 100% exercisable on February 28, 2006, and 25% of the award vested as of January 9, 2007, with der vesting annually at a rate of 25% per year.

ualified stock option was 100% exercisable on March 15, 2007, and 25% of the award vested as of January 1, 2008, with der vesting annually at a rate of 25% per year.

s non-qualified stock option vested on January 7, 2009, with the remainder vesting annually at the rate of 25% per year.

ualified stock option was 100% vested and exercisable as of March 3, 2008.

ualified stock option was 100% exercisable on March 15, 2007, and 25% of the award vested as of January 1, 2008, with der vesting annually at the rate of 25% per year

s non-qualified stock option vested on January 7, 2009, with the remainder vesting annually at the rate of 25% per year.

s non-qualified stock option vested on December 3, 2008, with the remainder vesting annually at the rate of 25% per year.

ualified stock option was 100% exercisable on September 11, 2002, and 100% vested as of October 7, 2006.

ualified stock option was 100% exercisable on April 16, 2003, and 100% vested as of April 30, 2007.

ualified stock option was 100% exercisable on February 6, 2004, and 100% vested as of February 1, 2008.

ualified stock option was 100% exercisable on January 26, 2005, and 100% vested as of April 30, 2008.

ualified stock option was 100% exercisable on January 26, 2005, and 100% vested as of July 30, 2008.

ualified stock option was 100% exercisable on January 26, 2005, and 100% vested as of September 1, 2008.

ualified stock option was 100% exercisable on April 27, 2005, and 100% vested as of January 9, 2009.

ualified stock option was 100% exercisable on October 19, 2005, and 416 of the options in this grant vest on each monthly y of October 19, 2005, until the fourth anniversary of that date, when 448 options vest. Notwithstanding the above vesting ll unvested shares will immediately vest upon termination of Mr. Hueber s employment by the Company without cause or eber for good reason (as each term is defined in his employment agreement).

ualified stock option was 100% exercisable on February 28, 2006, and 25% of the award vested as of January 9, 2007, with der vesting annually at the rate of 25% per year.

ualified stock option was 100% exercisable on March 15, 2007, and 25% of the award vested as of January 1, 2008, with der vesting annually at the rate of 25% per year.

s non-qualified stock option vested on January 7, 2009, with the remainder vesting annually at the rate of 25% per year.

s and Stock Vested

le provides information regarding the amounts received by our named executive officers upon the exercise of stock options during the 08.

Option Exercises and Stock Vested 2008(1)

	Option Aw
	Number of Shares Acquired on Exercise (#) (b)
	248,856
ke	
r	80,675
nald	142,875

sclosing stock awards under the heading Number of Shares Acquired on Vesting and Value Realized on Vesting are not this table because none of our NEOs hold stock awards that vested during 2008.

ed on exercise is based on the gain, if any, equal to the difference between the fair market value of the stock acquired upon the exercise date less the exercise price, multiplied by the number of shares for which options are being exercised.

s

s participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us at December 31, 2008, and sion benefits table included in this Proxy Statement.

ferred Compensation

Os participate in or have account balances in nonqualified defined contribution plans maintained by us at December 31, 2008, and, as a r
ferred compensation table included in this Proxy Statement.

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nts Upon Termination or Change-in-Control

eements

Ir. Hueber s employment agreements were amended in December 2008 in response to requirements under Section 409A of the Interna
modified the severance pay provisions to provide severance benefits to Ms. Brown and Mr. Hueber that comply with the requirements o
ns includes defining separation of service from the Company, an affiliate of the Company, or a successor entity within the meaning set
d, if Ms. Brown or Mr. Hueber are deemed a specified employee within the meaning of Section 409A, then any severance payment s
f (1) six months and one day after their separation from service or (2) their death. Our other NEOs employment agreements did not pro
nts, and it is our policy that we do not pay severance to terminated employees.

Pursuant to the terms of her employment agreement dated August 2, 2004, as amended, if Ms. Brown terminates her employment for
reement, or if we terminate her employment without cause, as defined in the agreement, she is entitled to a lump sum payment within te
date of termination as is proportionally (measured by severance amount against base salary) equal to the average rate of cash severanc
Company to management-level employees who are at or above her level of responsibility in the Company and whose employment was
vo years prior to Ms. Brown s termination not as a result of settlement of legal claims and not in situations where cause (as defined
employment agreement related to the particular employee, if different) existed or was alleged at the time by Company to exist.

r. Pursuant to the terms of his employment agreement dated September 16, 2002, as amended, if Mr. Hueber terminates his employme
l in the agreement, or if we terminate his employment without cause, as defined in the agreement, he is entitled to a lump sum payment
er the effective date of termination in an amount at least equal to the amount of severance paid by the Company to senior-management-
mployment during the year prior to his termination not as a result of settlement of legal claims or in situations where cause (as applic
ee and not as defined in the employment agreement) existed or was alleged to exist, or, if there was no such termination in such year, th
n of a senior-management-level employee in such circumstances.

esting of Equity Awards

option agreements between us and each of our named executive officers, unvested stock options awarded under our 2000 Option Plan s
period of one year upon the consummation of an acquisition of the Company. For purposes of these agreements, an acquisition is define
y merger in which its stockholders in their capacity as such no longer own a majority of the outstanding equity securities of the Compa
ally all of the assets or capital stock of the Company; or (3) any other acquisition of the business of the Company, as determined by our

uant to stock option agreements between us and each of our named executive officers, all stock options granted under the 2007 Option P
come fully exercisable in the event of a merger, sale, or dissolution, or a similar sale event, unless assumed or substituted. For the pu
ale event is defined as: (1) the dissolution or liquidation of the Company; (2) the sale of all or substantially all of the assets of the Com
s to an unrelated person or entity, (3) a merger, reorganization, or consolidation in which the outstanding shares of stock are converted i
curities of the successor entity and the holders of the Company s outstanding voting power immediately prior to such transaction do no
g voting power of the successor entity immediately upon completion of such transaction; or (4) the sale of all of the stock of the Compa
or entity.

reflects the estimated amounts payable to our named executive officers under their employment agreements upon termination, and the a
ng, for each of our named executive officers upon the consummation of any acquisition or sale event, in each case as of December 31, 2

	Number of Securities(1)	Value Upon Consummation of Acquisition(2)	Term Good Witho
	147,135	$ 5,402,797	
	50,000	1,836,000	
	31,875	1,170,450	
ke	112,500	4,131,000	
r	28,567	1,048,980	$
onald			

e-year acceleration of vesting for options to purchase Common Stock awarded under our 2000 Option Plan and full
of vesting for options to purchase Common Stock awarded under our 2007 Option Plan, each as of December 31, 2008,
onsummation of an acquisition or sale event on such date.

timated the market value of the unvested option shares based on an assumed public offering price of $36.72 per share,
e last reported sale price of Common Stock on the NASDAQ Global Market on December 31, 2008.

have not paid any senior-management-level employee severance upon termination of employment, and, accordingly, we
xpect to pay any severance to Ms. Brown and Mr. Hueber upon termination of their employment for good reason or
se (except as provided in footnote 4), as defined in their employment agreement. Our other named executive officers
t agreements do not provide for severance upon termination of employment.

an unvested non-qualified option to purchase 4,192 shares of Common Stock, which would immediately vest upon
of Mr. Hueber s employment by the Company without cause or by Mr. Hueber for good reason, each as defined in his
t agreement. We have estimated the market value of the unvested option shares based on the last reported sale price of
ock on the NASDAQ Global Market on December 31, 2008, of $36.72 per share.

ability and Indemnification Agreements

he Delaware General Corporation Law, we have adopted provisions in our Certificate of Incorporation and By-laws that limit or elimin
rectors. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary dut
y for:

ach of the director s duty of loyalty to us or our stockholders;

or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

awful payments related to dividends or unlawful stock purchases, redemptions, or other distributions; or

nsaction from which the director derived an improper personal benefit.

of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies, such a

3y-laws provide that:

. indemnify our directors, officers, and (in the discretion of our Board of Directors) certain employees to the fullest extent
ed by the Delaware General Corporation Law; and

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advance expenses, including attorneys fees, to our directors and (in the discretion of our Board of Directors) to our officers
tain employees, in connection with legal proceedings, subject to limited exceptions.

into indemnification agreements with each of our directors and our executive officers. These agreements provide that we will indemnif
cutive officers to the fullest extent permitted by law and advance expenses, including attorneys fees, to each indemnified director or ex
any proceeding in which indemnification is available.

general liability insurance that covers certain liabilities of our directors and officers arising out of claims based on acts or omissions in
ficers, including liabilities under the Securities Act.

nification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling the registrant unde
ve been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is

RELATED PERSON TRANSACTIONS

roval of Related Person Transactions

ectors has adopted a written policy, administered by our audit committee, that sets forth the policies and procedures to review and appr
r legal or business arrangements with directors, director nominees, executive officers, holders of more than five percent of our voting se
members of any of these persons, each of which is known as a related person. Such transactions and arrangements must be approve
ther group of directors, as authorized by our Board of Directors.

tains 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 mo
ship interest, each such entity being known as a related person affiliate. The list is updated at least annually and cross-checked agains
osed or ongoing transactions and arrangements with the Company and prior to entering into any new transaction or arrangement. To the
ve have entered into or will enter into any transaction or arrangement (including any modification or addition to an existing contract or a
son or related person affiliate, our Chief Financial Officer is notified.

r Chief Financial Officer, together with legal counsel, will review the appropriate NASDAQ, SEC, and other applicable rules and deter
nsaction or arrangement requires the approval of the Board of Directors, the audit committee, both, or neither. No transaction or arrange
related person affiliate may be entered into unless the Chief Financial Officer has either (i) specifically confirmed that no further appro
pecifically confirmed that all requisite corporate approvals necessary to enter into such transaction or arrangement have been obtained.

oth audit committee and Board of Director approval are required to authorize a transaction or arrangement with a related person or rela
committee will be asked to consider and vote on such transaction or arrangement and then make a recommendation to the Board of Di

th Related Persons

ed below, based on a review of the transactions and arrangements between the Company and any related person or related person affilia
at it was not a party to any transaction or arrangement in which any related person or related person affiliate has a direct or indirect ma

pany invested $550,000 in a newly formed corporation. Two of our directors, Todd Y. Park and Bryan E. Roberts, are also members of
ew corporation, although Dr. Roberts will be stepping down as a director of the Company following the Annual Meeting. Mr. Park inve
s affiliated with Venrock Associates, a beneficial owner of more than 5% of our voting securities, invested $2,026,335 in the new corpo

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

he Exchange Act requires the Company s officers and directors and persons who beneficially own more than 10% of the outstanding C
eporting Persons) to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Reporting Persons are req
nish the Company with copies of all Section 16(a) forms they file. Based solely on our review of such reports received or written repres
Persons during fiscal year ended December 31, 2008, the Company believes that all Reporting Persons complied with all Section 16(a)

TRANSACTION OF OTHER BUSINESS

ectors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly broug
it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

INCORPORATION BY REFERENCE

his Proxy Statement entitled Audit Committee Report and Compensation Committee Report do not constitute soliciting material a
ncorporated by reference into any other filing under the Securities Act or the Exchange Act, except to the extent that we specifically inc

HOUSEHOLDING OF PROXY MATERIALS

kers, and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. Thi
Notice of Internet Availability of Proxy Materials, proxy statement, and Annual Report on Form 10-K for the year ended December 31,
iple stockholders in your household. We will promptly deliver a separate copy of any of these documents to you if you write to us at 31
02472, Attention: Secretary or call us at (617) 402-1000. If you want to receive separate copies of the Notice of Internet Availability of
or Annual Report on Form 10-K in the future, or if you are receiving multiple copies and would like to receive only one copy for your h
ur bank, broker, or other nominee record holder, or you may contact us at the above address or telephone number.

Board of Directors,

Officer, President, and
Board of Directors

DIRECTIONS

chusetts Turnpike going West:

he Turnpike to Exit 17 and follow the signs towards Watertown (*i.e.*, stay in one of the two right lanes). This is Galen Street.

Galen Street until you come to a five-way intersection (immediately after crossing the Charles River) and take a sharp right harles River Road.

next traffic light, cross North Beacon St. and enter the *Arsenal on the Charles* campus. 400 North Beacon is the first brick g on your right. You can either enter our parking lot and park in an athenahealth, Inc. for Visitors only parking space or in the g garage at the end of the lot.

chusetts Turnpike going East:

he Turnpike to Exit 17 (Newton/Watertown). At the top of the ramp, go straight but get in the second lane from the left.

EFT back over the Mass Pike and immediately get in one of the two rightmost lanes. Be careful in merging to the right, as n those lanes can be heavy. Once in one of the right lanes, continue straight toward Galen Street (to Watertown Square).

Galen Street until you come to a five-way intersection (immediately after crossing the Charles River) and take a sharp right harles River Road.

next traffic light, cross North Beacon St. and enter the *Arsenal on the Charles* campus. 400 North Beacon is the first brick g on your right. You can either enter our parking lot and park in an athenahealth, Inc. for Visitors only parking space or in the g garage at the end of the lot.

c.
et
02472
CRNET - www.proxyvote.com
o transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-o
ve your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic v

ery of Future PROXY MATERIALS
to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, prox
ctronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet a
e that you agree to receive or access proxy materials electronically in future years.
L
ate your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mer
1717.

K BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR Y

DETACH AND RETURN

CARD IS VALID ONLY WHEN SIGNED AND DATED.

	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
rectors recommends that you llowing:				
Directors	o	o	o	

Foster 02 Ann H. Lamont 03 James L. Mann

rectors recommends you vote FOR the following proposal(s):	**For**	**Ag**
appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for ar ending December 31, 2009.	o	

ose of the meeting is also to transact such other business as may properly come before the meeting or at any
nts or postponements thereof. The proposal for the election of directors relates solely to the election of
nominated by the Board of Directors and does not include any other matters relating to the election of
ng, without limitation, the election of directors nominated by any stockholder of the Company.
ly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such.
personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized office

SE SIGN WITHIN BOX] Date Signature (Joint Owners)

e Regarding the Availability of Proxy Materials for the Annual Meeting: The Combined Document is/are available at www.proxyv

athenahealth, Inc.
311 Arsenal Street, Watertown, MA 02472
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD
OF DIRECTORS

ed hereby appoints Daniel H. Orenstein and Carl B. Byers as proxies, each with full power of substitution, and hereby authorizes them
ed on the reverse side of this ballot, all of the shares of common stock of athenahealth, Inc. held of record by the undersigned on April 1
of Stockholders to be held at the Company s headquarters located at 400 North Beacon Street, Watertown, MA 02472, on June 11, 200
ostponement thereof.

(Continued and to be signed on reverse side)