GREENWAY MEDICAL TECHNOLOGIES INC
Form 10-Q
May 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012

o 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
001-35413

GREENWAY MEDICAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	58-2412516 (I.R.S. Employer Identification No.)
121 Greenway Boulevard Carrollton, GA (Address of Principal Executive Offices)	30117 (Zip Code)

(770) 836-3100
(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer	o	Accelerated Filer	o
Non-Accelerated Filer	x (Do not check if a smaller reporting company)	Smaller Reporting Company	o

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

There were 29,077,612 shares of the registrant’s common stock outstanding as of May 7, 2012.

GREENWAY MEDICAL TECHNOLOGIES, INC.

FORM 10-Q

For The Quarterly Period Ended March 31, 2012

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Greenway Medical Technologies, Inc.
Condensed Balance Sheets
(Amounts in thousands, except share amounts and per share data)
(Unaudited)

	March 31, 2012	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$5,060	$5,722
Short-term investments	31,324	10,447
Accounts receivable, net of $719 and $585 allowance for doubtful accounts at March 31, 2012 and June 30, 2011 (unaudited), respectively	23,399	18,112
Inventory	582	460
Prepaids and other current assets	3,137	1,705
Deferred tax assets	1,822	476
Total current assets	65,324	36,922
Property and equipment, net	17,079	9,632
Acquired intangibles, net	542	-
Software development cost, net	14,624	6,811
Deferred tax assets - noncurrent	26,898	28,751
Goodwill	440	-
Other assets	40	40
Total assets	$124,947	$82,156
Liabilities and shareholders' equity (deficit)		
Current liabilities:		
Accounts payable	$10,958	$7,902
Accrued liabilities	8,786	5,900
Deferred revenue	9,507	8,672
Total current liabilities	29,251	22,474
Obligation for purchased technology	138	349
Commitments and contingencies (Note 11)		
Convertible preferred stock, at fair value		
Series A - Issued and outstanding 3,333,333 shares at June 30, 2011 (cumulative liquidation preference $35,073)	-	75,634
Series B - Issued and outstanding 4,631,579 shares at June 30, 2011 (cumulative liquidation preference $31,425)	-	83,183
Shareholders' equity (deficit):		
Common stock	3	11,498
Additional paid-in capital	236,474	59,038
Accumulated deficit	(140,919)	(170,020)

Total shareholders’ equity (deficit)	95,558	(99,484)
Total liabilities, convertible preferred stock and shareholders’ equity (deficit)	$124,947	$82,156

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

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Greenway Medical Technologies, Inc.
Condensed Statements of Operations
(Amounts in thousands, except share amounts and per share data)
(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Revenue:				
System sales	$10,271	$6,727	$26,125	$19,782
Training and consulting services	7,643	4,434	20,547	12,201
Support services	8,741	5,802	23,508	16,011
Electronic data interchange and business services	6,210	4,639	17,458	12,438
Total revenue	32,865	21,602	87,638	60,432
Cost of revenue:				
System sales	2,558	1,587	7,166	5,199
Training and consulting services	5,355	3,386	14,347	9,472
Support services	2,691	1,846	7,620	4,750
Electronic data interchange and business services	4,226	3,162	12,201	8,786
Total cost of revenue	14,830	9,981	41,334	28,207
Gross profit	18,035	11,621	46,304	32,225
Operating expenses:				
Sales, general and administrative	11,802	9,623	33,962	27,145
Research and development	4,021	2,285	11,029	5,628
Total operating expenses	15,823	11,908	44,991	32,773
Operating income (loss)	2,212	(287)	1,313	(548)
Interest income (expense), net	50	8	42	33
Other (expense), net	65	(22)	(22)	(52)
Income (loss) before provision for income taxes	2,327	(301)	1,333	(567)
Provision (benefit) for income taxes	948	(30,975)	628	(30,944)
Net income	1,379	30,674	705	30,377
Preferred stock dividends and accretion	-	(13,232)	28,395	(39,728)
Income (loss) available to common shareholders	$1,379	$17,442	$29,100	$(9,351)
Per share data:				
Net income (loss) per share available to common shareholders:				
Basic	$0.06	$1.50	$1.89	$(0.81)
Diluted	$0.06	$1.46	$0.04	$(0.81)
Weighted average number of common shares outstanding				
Basic	22,859,440	11,606,520	15,410,220	11,561,887
Diluted	24,130,778	21,073,852	16,738,678	11,561,887

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

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Greenway Medical Technologies, Inc.
Condensed Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Nine Months Ended	
	March 31, 2012	March 31, 2011
Cash flows from operating activities:		
Net income	$705	$30,377
Adjustments to reconcile net income to net cash provided by operating activities:		
Net stock compensation expense	1,831	1,340
Deferred income tax provision (benefit)	507	(31,000)
Depreciation and amortization	2,928	635
Provision for bad debts	1,017	538
Reduction in obligation for acquired technology	(100)	-
Changes in current assets and liabilities:		
Accounts receivable	(6,304)	(1,626)
Inventory	(122)	(260)
Prepaids and other current assets	(1,432)	(425)
Accounts payable and accrued liabilities	4,988	1,275
Deferred revenue	835	3,562
Net cash provided by operating activities	4,853	4,416
Cash flows from investing activities:		
Purchase of short-term investments	(26,566)	(10,507)
Sales of short-term investments	5,689	-
Purchases of property and equipment	(6,250)	(2,660)
Business combination to acquire technology and other assets	(3,000)	-
Capitalized software development cost	(8,966)	(3,295)
Net cash used in investing activities	(39,093)	(16,462)
Cash flows from financing activities:		
Payments on capital leases	-	(12)
Payments on obligation for acquired technology	(111)	-
Proceeds from exercise of stock options and warrants	611	418
Payments in connection with preferred stock conversion	(23,300)	-
Sale of common stock, net of issue costs and expenses	56,378	-
Net cash provided by financing activities	33,578	406
Net decrease in cash and cash equivalents	(662)	(11,640)
Cash and cash equivalents at beginning of period	5,722	19,179
Cash and cash equivalents at end of period	$5,060	$7,539
Supplemental cash flow information:		
Cash paid for interest	$4	$9
Cash paid for taxes	$120	$300
Non-cash investing and financing activities:		
Conversion of preferred stock	$135,517	$-
Common stock and obligations for future payments at fair value, given in exchange for acquisition of technology	$954	$860

Reduction in obligation for acquired technology	$100	$-

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

Greenway Medical Technologies, Inc.
Notes to Condensed Financial Statements (Unaudited)

Note 1—Basis of Presentation and Description of Company
We prepared the accompanying interim condensed financial statements in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. We believe these condensed financial statements reflect all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation. Operating results for the three and nine months ended March 31, 2012, are not necessarily indicative of the results that may be expected for our fiscal year ending June 30, 2012. For more information regarding our results of operations and financial position, refer to the financial statements and footnotes included in our prospectus filed pursuant to Rule 424(b) on February 2, 2012, with the Securities and Exchange Commission ("SEC").

As appropriate to the context, "Greenway", the "Company", and "we", "us" and "our" are used interchangeably to refer to Greenway Medical Technologies, Inc., originally incorporated in Georgia in 1998. In connection with our recently completed initial public offering ("IPO"), we reincorporated in Delaware on February 7, 2012. We develop, market and sell an integrated suite of healthcare technology solutions, including practice management and electronic medical record software applications for physician practices, clinics and other providers in ambulatory settings throughout the United States.

Note 2—Accounting Policies and New Accounting Standards
Our accounting policies are consistent with those described in our Significant Accounting Policies for our fiscal year ended June 30, 2011, in our prospectus filed pursuant to Rule 424(b) on February 2, 2012, (the "Prospectus") with the SEC.

New Accounting Standards - In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU represents the converged guidance of the FASB and the International Accounting Standards Board on fair value measurement. These amendments have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The common requirements are expected to result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments are to be applied prospectively and are effective for fiscal years beginning after December 15, 2011. The Company plans to adopt these provisions in the first quarter of Fiscal 2013. Adoption of these provisions is not expected to have a material impact on the Company's financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income. The amendments to the Codification in this ASU allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011 ASU 2011-12 was issued to defer the effective date relating to these reclassification adjustments requirements. Other provisions of ASU 2011-05 are to be applied retrospectively and are effective for fiscal years beginning after December 15, 2011. The Company plans to adopt these provisions in the first quarter of Fiscal 2013. Adoption of these provisions is not expected to have a material impact on the Company's financial statements.

In September 2011, the FASB issued 2011-08, Intangibles - Goodwill and Other (Topic 350), Testing Goodwill for Impairment. The Board decided to simplify how companies are required to test goodwill for impairment. Companies now have the option to first assess qualitative factors to determine whether it is more likely than not (likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If after considering the totality of events and circumstances a company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it will not have to perform the two-step impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. If a company has not yet issued their financial statements for the most recent annual or interim period, the company may choose to perform the qualitative assessment. ASU 2011-08 will be effective for our fiscal year ending June 30, 2013, and we are currently evaluating the impact on our financial statements.

3 - Investments

Short-term investments consist of mutual funds, money market funds and U.S. agency and corporate bonds with original maturities greater than three months and remaining maturities of less than one year. Investments are also made in corporate bonds with original maturities of greater than one year but maximum remaining maturities of 18 months; these investments are also included in short-term investments since the Company’s intent is to convert them into cash as may be necessary to meet liquidity needs. At March 31, 2012, all of the Company’s investments were classified as available-for-sale and are reported at fair value with any changes in market value reported as a part of comprehensive income. As of March 31, 2012, gross accumulated unrealized gains and losses for these investments were immaterial. Fair value is based on the Level 1 or 2 criteria of the fair value hierarchy specified in ASC 820-10, Fair Value Measurements and Disclosures.

Investments at fair value consisted of the following:

Available-for-sale securities (in thousands)	March 31, 2012	June 30, 2011
Mutual funds	$ 27,838	$ -
Corporate bonds	3,415	4,452
U.S. agency bonds	-	1,413
Money market funds	71	4,582
Total	$ 31,324	$ 10,447

4 - Property and Equipment and Other Intangible Assets

Property and equipment consists of:

	Estimated useful lives	March 31, 2012	June 30, 2011
		(in thousands)	
Land	—	$ 1,171	$ 1,088
Building	39 years	4,433	4,433
Leasehold improvements	Lesser of lease term or 7 years	304	291
Equipment	3 years	1,312	2,753
Furniture and fixtures	5 years	3,191	1,230
Purchased software	3 years	3,052	1,315
Acquired technology	3 years	3,894	974
		17,357	12,084
Less - Accumulated depreciation		(5,793)	(4,070)
		11,564	8,014
Construction in progress		5,515	1,618
Total		$ 17,079	$ 9,632

Acquired Technology and Other Assets - In September 2010, the Company acquired certain technology and intellectual property in exchange for cash and 50,000 shares of common stock. The $600,000 cash portion of the purchase price is payable over three years in variable amounts based on sales of the Company’s product offering into which the technology is incorporated. The fair value of the aggregate consideration was estimated at $974,000 and allocated in its entirety to acquired technology estimated to have a useful life of three years. Amortization is charged to cost of goods sold and totaled $105,000 and $291,000, and $86,000 and $115,000 during the three and nine months ended March 31, 2012 and 2011, respectively. The purchase agreement provided for a potential reduction of this cash portion of the purchase price when and if an initial public offering of the Company's common stock were to be completed. Accordingly, in connection with our offering completed in February, this obligation was reduced by approximately $100,000 which is reflected in other income in the accompanying financial statements.

In October 2011, we acquired certain technology and other assets of Cy Solutions which we believe will facilitate our penetration of the Federally Qualified Health Center (FQHC) market. Total consideration was $4 million which includes $1 million contingent on attainment of certain performance objectives. The estimated $954,000 fair value of the contingent consideration is included in other liabilities. Based on an independent valuation, the estimated value of total consideration was allocated to acquired intangibles and other assets as follows:

Assets Acquired		Estimated Fair Value (in thousands)	Estimated Useful Life
Developed Technology	$	2,920	3 years
Customer Relationships		530	5 years
Non-competition Agreements		64	3-5 years
Goodwill		440	Indefinite
Total fair value of consideration	$	3,954	

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Software Development Costs – We apply the provisions of ASC 985-20, Software, Costs of Computer Software to be Sold, Leased or Marketed, which requires the capitalization of costs incurred in connection with the research and development of new software products and enhancements to existing software products once technological feasibility is established. Such costs are amortized on a straight-line basis over the estimated economic life of the related product, which is typically three years. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors including, but not limited to, anticipated future gross product revenue, estimated economic life, and changes in technology. Capitalized software development costs approximated $3.1 million and $9 million and $2.5 million and $3.3 million during the three and nine months ended March 31, 2012 and 2011, respectively. Amortization of capitalized software development costs approximated $595,000 and $1.1 million, respectively, for the three and nine months ended March 31, 2012 and de minimis for the comparable periods of fiscal 2011.

Construction of New Facilities and Real Estate Tax Incentive Transaction - In December 2011, we entered into a sale-leaseback transaction pursuant to which we sold certain land and a building under development as our new administrative headquarters located in Carrollton, Georgia. The transaction contemplates an ultimate total purchase price of $12 million and in December, approximately $1 million already incurred for the project was received in cash and was simultaneously invested and is subject to a revenue bond financing agreement (the “Bond”). As development of the project progresses, the balance of $11 million contemplated under this agreement will be paid from our resources, then sold and proceeds reinvested in in a similar fashion. This agreement, in accordance with Georgia law, is intended to permit counties to attract business investment by offering property tax incentives. The arrangement is structured so that our lease payments to the County equal and offset the County’s bond payments to the Company. The Bond is non-recourse to the County, our lease payments are pledged to secure repayment of the Bond, and the lease and Bond provide for the legal right of offset. Consequently, the investment and lease obligation related to this arrangement have been offset in our balance sheet. The agreement has a maximum expiration date of 2021. If we had not entered into this transaction, property tax payments would have been higher. We can reacquire such property and terminate the agreement at a nominal price of ten dollars. The subject property was included in property and equipment - construction in progress in our balance sheet as of March 31, 2012.

5 - Transactions with Related Parties

Effective July 1, 2000, the Company entered into an agreement to lease the corporate office from Green Family Real Estate, LLC, an entity controlled by the Company’s Chairman, for approximately $20,000 per month, plus annual adjustments for inflation, until June 30, 2015 (see Note 11).

In 2000, the Company entered into an agreement to rent on an hourly basis an airplane from Greenway Air, LLC, an entity controlled by the Company’s Chairman. Expenses incurred related to this agreement were approximately $8,000 and $33,000 for the three and nine months ended March 31, 2012, and $24,000 and $58,000 for the three and nine months ended March 31, 2011. In March 2002, the Company purchased a 1% interest in Greenway Air, LLC, for $12,500. This investment is recorded at cost in the accompanying balance sheets.

The Company has considered applicable guidance regarding variable interest entities and has determined that neither of these arrangements is such an entity.

The Company has two institutional shareholders who, as of December 31, 2011, owned Series A and Series B Convertible Preferred Stock (Note 7) and shares of common stock. All outstanding preferred stock automatically converted into common stock in connection with the closing of our initial public offering. As of the closing of our initial public offering, February 7, 2012, these shareholders collectively owned approximately 44% (25% for one investor and 19% for the other) of the Company’s common stock. One representative of each of these institutional shareholders sits on the Company’s Board of Directors. Given this substantial ownership position, these shareholders are able individually, and collectively, to exercise substantial influence over the affairs of the Company.

In April 2011, the Company purchased three commercial lots totaling approximately six acres which are being used to build new facilities to accommodate its growth. The property was purchased from the Company's Chairman pursuant to authorization from the Board of Directors. Aggregate consideration was approximately $483,000 and was based on an independent appraisal.

6 - Credit Facility
In March 2011, the Company closed on a new loan agreement with a two-year term. This facility provides financing up to $5,000,000, based on eligible receivables, with interest at LIBOR plus 275 basis points, is secured by a pledge of the Company's assets and contains customary provisions regarding covenants including a prohibition on payment of cash dividends. There were no amounts outstanding on the credit facility at March 31, 2012, and the full amount of the facility was available.

7 - Shareholders' Equity (Deficit)
On February 1, 2012, our registration statement on Form S-1 (No. 333-175619) was declared effective for our initial public offering (the "IPO"), and on February 7, 2012, we consummated the IPO consisting of the sale of 7,666,667 shares of our common stock at a price of $10.00 per share, including 6,388,833 shares (including the underwriters' exercise of their over-allotment option to purchase an addition 1,000,000 shares) issued and sold by us. Following the sale of the shares in connection with the closing of the IPO, the offering terminated. As a result of the offering, including the underwriters' over-allotment option, we received total net proceeds of approximately $56.4 million, after deducting total expenses of $7.5 million, consisting of underwriting discounts and commissions of $4.5 million and offering-related expenses of approximately $3.0 million.

We used a portion of the net proceeds from the IPO to pay $23.3 million consisting of a cash payment to holders of our outstanding preferred stock concurrently with the conversion of such shares into shares of common stock in connection with the closing of the IPO. Certain holders of our outstanding preferred stock who received cash payments included certain executive officers and directors. We intend to use the remaining proceeds to finance the construction of new facilities to accommodate the growth of our business (approximately $12.0 million), as well as for working capital and general corporate purposes, which may include financing our growth, developing new technology solutions and services, and funding capital expenditures, acquisitions and investments. The Company currently does not have any pending material acquisitions. We did not receive any proceeds from the sale of shares by the selling stockholders. There has been no material change in the use of proceeds from the IPO as described in the Prospectus under "Use of Proceeds".

As indicated above, in connection with the IPO all of the convertible preferred stock outstanding automatically converted into shares of common stock as follows:

(1) 3,333,333 shares of Series A Convertible Preferred Stock converted into 4,210,533 shares of common stock based on application of the conversion ratio of 1.2631: 1;

(2) 4,631,579 shares of Series B Convertible Preferred Stock converted into a like number of shares of common stock based on a conversion ratio of 1: 1;

(3) in connection with the conversion of our convertible preferred stock, a mandatory cash payment of up to $42 million was due the holders thereof based on $4.75 per equivalent common share upon conversion; this amount was satisfied by (a) a payment of $23.3 million made to certain holders and (b) issuance of 1,870,124 shares of our common stock to those holders electing to receive common stock at the $10 IPO price in lieu of cash.

Concurrent with the IPO, the Company increased the authorized common stock and modified the par value to $0.0001 per share.

The amount of stock authorized, issued and outstanding, after effect of the foregoing, is summarized as follows:

	March 31, 2012		June 30, 2011		
	Common Stock	Preferred	Common Stock	Series A Preferred	Series B Preferred
Authorized	80,000,000	20,000,000	25,000,000	3,458,333	4,631,579
Issued	29,064,886	-	11,676,562	3,333,333	4,631,579
Outstanding	29,064,886	-	11,676,562	3,333,333	4,631,579

Stock Options - On November 16, 2011, we adopted, and on December 16, 2011, we received shareholder approval of the Greenway Medical Technologies, Inc. 2011 Stock Plan (the "2011 Plan") which provides for issuance of equity awards for up to 3,000,000 shares of our common stock. Effective with completion of our initial public offering, equity awards will occur only under the 2011 Plan. For the three and nine months ended March 31, 2012, respectively, options for 3,750 and 334,454 shares of our common stock were granted under our applicable plans. We also have options granted, fully-vested and outstanding under our 1999 Stock Plan. At March 31, 2012, 2,967,451 options were outstanding; no further grants will be made under either of these prior plans. We expense stock compensation costs in the cost of sales and selling, general and administrative expense line items of our Condensed Statements of Operations over the vesting periods of each grant. For the three and nine months ended March 31, 2012, we expensed $344,000 and $1.8 million, respectively, and for the three and nine months ended March 31, 2011, we expensed $506,000 and $1.3 million, respectively, in connection with outstanding option awards. As of March 31, 2012, there was $3.1 million of total unrecognized compensation cost related to non-vested awards granted under the 2004 Stock Plan. This cost is expected to be recognized over a period of 3.5 years.

8 - Fair Value of Financial Instruments
The book values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values, principally because of the short-term maturities of these instruments. As provided by their terms, the Company’s Series A and Series B Convertible Preferred Stock issuances were carried at estimated fair value based on the greater of a) liquidation preference including accrued dividends or b) fair value of these instruments largely bases on independent appraisals.

The Company applies ASC 820, Fair Value Measurements and Disclosures, with respect to fair value of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company’s financial statements on a recurring basis and (b) all financial assets and liabilities. The Company applies the aspects of ASC 820 relative to nonfinancial assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis but elects not to apply the fair value option.

ASC 820 prioritizes the inputs used in measuring fair value as follows: Level 1 — Quoted market prices in active markets for identical assets or liabilities; Level 2 — Observable inputs other than those included in Level 1 (for example, quoted market prices for similar assets in active markets or quoted market prices for identical assets in inactive markets); and Level 3 — Unobservable inputs reflecting management’s own assumptions about the inputs used in estimating the value of the asset.

The Company’s financial instruments measured at fair value as of March 31, 2012, and June 30, 2011, consisted of:

(Amounts in thousands)	Balance Sheet Classification	Fair Value Hierarchy Category Level 1	Level 2	Level 3
At March 31, 2012:				
Available-for-sale equity securities	Short-term investments	$ 27,909	$ 3,415	—
Series A convertible preferred stock	Temporary equity	—	—	$ —
Series B convertible preferred stock	Temporary equity	—	—	$ —
At June 30, 2011:				
Available-for-sale equity securities	Short-term investments	$ 4,582	$ 5,865	—
Series A convertible preferred stock	Temporary equity	—	—	$ 75,634
Series B convertible preferred stock	Temporary equity	—	—	$ 83,183

9 - Income Taxes
As of March 31, 2012, the Company had gross net operating losses (NOLs) of approximately $77 million. These NOLs will be available to offset any future taxable income and will begin to expire in 2020. The Company has also generated research credit carryforwards of approximately $2.4 million. The Company estimates its annual effective

tax rate for 2012 at approximately 40%. For the three and nine months ended March 31, 2012, the effective rate was 41% and 47% respectively. The effective tax rate for these periods reflect the effect of miscellaneous payments to various state jurisdictions which were expensed during the periods.

As of March 31, 2012, the Company had no unrecognized tax benefits. The Company will recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense when and if incurred. The Company had no interest or penalties related to unrecognized tax benefits accrued as of March 31, 2012. The Company does not anticipate that the amount of the unrecognized benefit will significantly increase within the next 12 months. The Company is no longer subject to U.S. federal income or state tax return examinations by tax authorities for tax years before 2007. However, net operating loss carryforwards remain subject to examination to the extent they are carried forward and impact a year that is open to examination by tax authorities.

At March 31, 2011, the Company determined that it would be more likely than not that the cumulative net operating loss and other deferred tax benefits would be recoverable. Accordingly, net deferred tax assets of approximately $31.0 million were recorded on the Company's balance sheet as of that date with a corresponding $31.0 million income tax benefit recorded in the statement of operations. This determination was based on our evaluation of positive and negative evidence as set forth in our annual financial statements for the year ended June 30, 2011, included in our Prospectus.

The determination of when to adjust the valuation allowance requires significant judgment on the part of management. Although realization is not assured, management concluded that it is more likely than not that the deferred tax assets at March 31, 2011, will be realized in the ordinary course of operations. Therefore a valuation allowance was determined to be unnecessary. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if actual future earnings are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

10 - Net Income (Loss) Per Share Available to Common Shareholders

Basic earnings per share available to common shareholders is computed by dividing income (loss) available to common shareholders by the sum of the weighted average number of common shares outstanding during the period. Income (loss) available to common shareholders reflects accretion of preferred stock dividends, preferred stock issue cost and adjustment to recognize the estimated fair value of the put feature ascribed to these securities (Notes 7 and 8). Diluted income per share gives effect to all potentially dilutive common share equivalents outstanding during the period. Such potentially dilutive common share equivalents included Series A and B Preferred Stock fully converted into common shares as of March 31, 2012, but convertible into 8.8 million shares of common for each of the three and nine months ended March 31, 2011; outstanding warrants exercisable for common shares totaling 121,000 at March 31, 2012, and 293,000 at March 31, 2011; and stock options outstanding for 3.0 and 2.7 million shares of common for each of the three and nine months ended March 31, 2012 and 2011, respectively. The dilutive effect of outstanding stock options and warrants is computed using the treasury stock method. The computation of diluted income (loss) per share does not assume conversion, exercise, or contingent exercise of securities that would have an anti-dilutive effect on earnings. In as much as inclusion of any or all of the potentially dilutive common share equivalents is anti-dilutive for the nine months ended March 31, 2011; presentation of (loss) per share available to common shareholders — basic and diluted are the same for this period.

11 - Leases and Other Commitments

As discussed in Note 5, the Company leases office space from related parties under operating leases through 2015. Rental expense for all building and equipment leases totaled approximately $421,000 and $876,000 for the three and nine months ended March 31, 2012, and $207,000 and $550,000 for the three and nine months ended March 31, 2011, respectively. The Company has entered into contracts for development of new facilities to accommodate its growth. The project is expected to be completed by the end of fiscal 2013 and is estimated to cost approximately $12,000,000 which will be funded from existing resources and available credit.

12 - Segment Information

The Company complies with ASC Topic 280, Segment Reporting. ASC 280, which is based on a management approach to segment reporting and requires that the Company disclose information about the business components (operating segments) as utilized to make operating decisions and assess performance. The objective of this guidance is to help financial statement users understand the Company's performance, assess prospects for future cash flows and judge the entity as a whole. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. The Company manages its resources and assesses its performance on an enterprise-wide basis. The Company does report revenue according to the nature of the products and services provided to its customers; providers in various settings within the ambulatory sector of the domestic healthcare market who share similar economic characteristics.

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

This Form 10-Q, contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements. The forward-looking statements are contained principally in Part I, Item 2—"Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A—"Risk Factors," but appear throughout this Form 10-Q. Forward-looking statements may include, but are not limited to, statements relating to our outlook or expectations for earnings, revenues, expenses, asset quality, volatility of our common stock, financial condition or other future financial or business performance, strategies, expectations, or business prospects, or the impact of legal, regulatory or supervisory matters on our business, results of operations or financial condition.

Forward-looking statements can be identified by the use of words such as "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "target" or similar expressions. Forward-looking statements reflect our judgment base on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included elsewhere in this Form 10-Q and in our other SEC filings, including our prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the SEC on February 2, 2012 (the "Prospectus"). Additionally, there may be other factors that could preclude us from realizing the predictions made in the forward-looking statements. We operate in a continually changing business environment and new factors emerge from time to time. We cannot predict such factors or assess the impact, if any, of such factors on our financial position or results of operations. All forward-looking statements included in this Form 10-Q speak only as of the date of this Form 10-Q and you are cautioned not to place undue reliance on any such forward-looking statements. Except as required by law, we undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

Business overview

We are a leading provider of integrated information technology solutions and managed business services to ambulatory healthcare providers throughout the United States. At the core of our suite of solutions and services is PrimeSUITE, our award-winning, fully-integrated EHR, PM and interoperability solution. PrimeSUITE integrates clinical, financial and administrative data in a single database to enable comprehensive views of patient records and efficient workflow throughout each patient encounter, reduce clinical and administrative errors, and allow for the seamless exchange of data between our customers and the broader healthcare community. We augment our solutions by offering managed business services such as clinically-driven revenue cycle and EHR-enabled research services. By integrating clinical, financial and administrative data processes, our solutions and services are designed to allow providers to deliver advanced care and improve their efficiency and profitability.

Our technology solutions and services are designed to address the needs of providers in all ambulatory settings: independent physician practices, group practices, hospital-affiliated and hospital-owned clinics and practices, retail clinics, employer clinics, university and academic centers, federally-qualified health centers ("FQHCs"), community health centers ("CHCs"), accountable care communities ("ACCs") and accountable care organizations ("ACOs"), and integrated delivery networks ("IDNs"). Our single database technology platform, which reflects over 12 years of development, is scalable to serve the needs of ambulatory providers of any size. As providers' needs evolve, our platform allows for the efficient development and integration of new solutions, which we refer to as our innovation platform. Our solutions are available on either a cloud-based or premise-based model.

The ambulatory EHR market has historically been underpenetrated and installed systems have been underutilized. Adoption of these technologies has been low for several reasons, including providers' resistance to making the required investment as well as concerns that electronic records would disrupt clinical and administrative workflows. Adoption of EHR solutions is accelerating as more providers realize the possible return on investment from adoption of solutions such as PrimeSUITE. Government initiatives and legislation have provided financial incentives and implementation support for ambulatory providers to adopt EHR solutions.

In order for us to continue to deliver on this commitment to our providers we are committed to investing in our innovation platform and managed business services to address the trends and challenges we believe will affect our providers now and in the future. We will invest in the development of new products and enhancements to existing products that we believe present opportunities for substantial efficiencies to ourselves and our providers' businesses. In responding to the acceleration of EHR adoption, government regulations such as the HITECH Act and ARRA, and other market trends such as increasing consumerism, the shift to quality-based reimbursement and the focus on improving the coordination of care among providers, we also face the following opportunities, challenges and risks, which could impact our business:

Maintaining Adequate Capacity to Satisfy Potential Increased Demand. We have taken steps to position ourselves to take advantage of expected increased demand by increasing our direct sales force, enhancing our relationships with strategic alliance partners with established sales forces and increasing our systems installation capacity by utilizing third-party training and implementation specialists certified in PrimeSUITE deployment. While we believe these steps are sufficient to satisfy expected demand, additional investments and steps may be required.

Ensuring Continued Certification of Our Solutions. In order to qualify for government incentives for EHR adoption, our solutions must continue to meet various and changing requirements for product certification and must enable our providers to achieve “meaningful use” as defined by existing and new regulations. We will continue to invest significant resources to ensure compliance of our solutions and to train and consult with our providers to enable them to navigate “meaningful use” regulations. Our ability to achieve certification under applicable standards from time to time and the length and cost of related solutions development and enhancement could materially impact our ability to take advantage of increased demand and require larger research and development investments than anticipated.

Ensuring Our Ability to Address Emerging Demand Trends. Trends toward community-based purchasing decisions where individuals, hospitals, health systems and IDNs subsidize the purchase of EHR solutions for their affiliated physicians in order to expand connectivity within their provider community, and government-funded providers and initiatives, such as RECs, to encourage and support the implementation of EHR, could result in longer sales cycles and installation periods. This may also increase the need for additional training and implementation specialists because of the size and complexity of those sales. As a result, while we expect these trends to result in increased demand for our solutions and managed business services, they may require additional investment by us and may have unintended or unexpected consequences that could impact our business.

Demand by Smaller Providers Could Accelerate Transition to Subscription Pricing Model. The adoption of EHR by the large untapped market of smaller provider customers and their greater need to minimize capital outlays could accelerate adoption of subscription-based arrangements as opposed to perpetual licensing arrangements. While additional subscription arrangements will result in increased recurring revenue over a longer period of time than we have achieved historically, near-term revenue would be reduced as a result while costs associated with these sales would still be expensed currently.

Uncertain Impact of Recent Legislation. Recently enacted public laws reforming the U.S. healthcare system may impact our business. The Patient Protection and Affordable Care Act (“PPACA”) and The Health Care and Education and Reconciliation Act of 2010 (the “Reconciliation Act”), which amends the PPACA (collectively the “Health Reform Laws”), were signed into law in March 2010. The Health Reform Laws contain various provisions that may impact the Company and our customers. Some of these provisions may have a positive impact, by expanding the use of electronic health records in certain federal programs, for example, while others, such as reductions in reimbursement for certain types of providers, may have a negative impact due to fewer available resources. Increases in fraud and abuse penalties may also adversely affect participants in the health care sector, including the Company.

Sources of Revenue and Expenses

Revenue

We derive our revenue primarily from sales of our PrimeSUITE platform of proprietary solutions, related hardware and professional services to providers in ambulatory settings. Currently, a sizable percentage of our solution sales are made as perpetual licenses to our customers; however, our software is currently available in a cloud-based or a premise-based model.

We classify our revenue as: (1) Systems Sales, (2) Training and Consulting Services, (3) Support Services, and (4) Electronic Data Interchange and Business Services. Systems Sales are products comprised of software licenses, primarily PrimeSUITE, and related hardware and third-party software. Training and Consulting Services include implementation, training and consulting associated with Systems Sales. Support Services includes solutions we offer on a per user or transaction basis, such as PrimeSUITE and PrimeEXCHANGE services for connectivity to third-parties and third-party database charges. Electronic Data Interchange and Business Services include third-party charges for patient claims, statements and eligibility, and clinically-driven RCM and EHR-enabled research services.

As our installed customer base continues to grow, we anticipate that Support Services and Electronic Data Interchange and Business Services, which are recurring in nature, will expand as a percentage of our total revenue. Historically, we have experienced moderate seasonality to our annual revenue with the smallest percentage of sales typically occurring in our first fiscal quarter due primarily to provider purchasing patterns. See “Results of Operations” for more information.

Cost of Revenue.

Cost of revenue for Systems Sales consists primarily of third-party hardware and software costs and amortization of capitalized software development costs and acquired technology. Cost of revenue for Training and Consulting Services consists primarily of compensation (including stock-based compensation) and benefits of our billable professionals and fees to third-party specialists for deployment, implementation and training, and travel costs. Cost of revenue for Support Services consists primarily of compensation (including stock-based compensation) and benefits of support specialists, and fees to third-parties for database services and services from our managed services partners. Cost of revenue for Electronic Data Interchange consists primarily of fees to third-parties for processing claims, statements and eligibility requests; cost of revenue for Business Services consists primarily of compensation (including stock-based compensation) and benefits of personnel who deliver our revenue cycle management services and various third-party costs associated with our EHR-enabled clinical research services. As higher-margin recurring revenue increases as a percentage of total revenue, we believe overall gross margin will also increase over time.

Sales, General and Administrative Expenses

Sales, general and administrative ("SG&A") expenses consist primarily of compensation (including stock-based compensation) and benefits, commissions, travel, professional fees, advertising and other administrative and general expenses, including depreciation and amortization of equipment and leasehold improvements, for the Company's sales and marketing functions; executive offices, administration, human resources, corporate information technology support, legal, finance and accounting, and other corporate services. We intend to invest in our infrastructure as appropriate to expand our market share and accommodate our growing customer base. We expect to incur additional expenses associated with being a public company, including increased legal and accounting costs, investor relations costs and compliance costs in connection with Section 404 of the Sarbanes-Oxley Act. As a result, we expect SG&A expenses to increase as we grow, but remain relatively constant as a percentage of revenue and ultimately decline as we achieve leverage from our infrastructure investments.

Research and Development Expenses

Research and development expenses consist primarily of compensation (including stock-based compensation) and benefits, third-party contractor costs and other facility and administrative costs, including depreciation of equipment directly related to development of new products and upgrading and enhancing existing products. In accordance with GAAP, research and development costs related to new application development and enhancements to existing products are expensed until technological feasibility is established. Once technological feasibility is established such costs are capitalized until the product or enhancement is ready for market, at which point capitalization ceases. We capitalize research and development costs under these criteria including the compensation-related costs of personnel and related third-party contractors working directly on specific projects. We intend to invest in our innovation platform to maintain cutting-edge technology for the benefit of our customers as well as to meet evolving requirements of the market, including certifications and standards.

Provision for Income Taxes

In preparing our financial statements, we estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred income tax assets and liabilities.

Results of Operations

The following table sets forth revenue and cost of revenue by category for the three and nine months ended March 31, 2012, as compared to the comparable periods of the prior year:

	Three Months Ended March 31,				Change	
	2012		2011		Increase (Decrease)	
	Amount (000's)	Percentage	Amount (000's)	Percentage	Amount (000's)	Percentage
Revenue:						
System sales	$ 10,271	31 %	$ 6,727	31 %	$ 3,544	53 %
Training and consulting services	7,643					