ATHENAHEALTH INC
Form 10-Q
April 26, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-33689
athenahealth, Inc.
(Exact name of registrant as specified in its charter)

Delaware	04-3387530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
311 Arsenal Street Watertown, Massachusetts	02472
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ
At April 24, 2018, the registrant had 40,409,721 shares of common stock, par value $0.01 per share, outstanding.

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PART I – FINANCIAL INFORMATION

athenahealth, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited, amounts in millions, except per share amounts)

	Three Months Ended March 31,	
	2018	2017 [1]
Revenue	$329.4	$285.4
Cost of revenue [2]	154.0	144.4
Gross profit	175.4	141.0
Other operating expenses:		
Selling and marketing	49.7	65.7
Research and development [2]	48.2	42.8
General and administrative	35.4	31.4
Total other operating expenses	133.3	139.9
Operating income	42.1	1.1
Other expense	(2.6)	(1.2)
Income (loss) before income tax provision	39.5	(0.1)
Income tax provision	8.4	1.3
Net income (loss)	$31.1	$(1.4)
Foreign currency translation adjustment	(0.3)	0.4
Comprehensive income (loss)	$30.8	$(1.0)
Net income (loss) per share – Basic	$0.77	$(0.03)
Net income (loss) per share – Diluted	$0.76	$(0.03)
Weighted average shares used in computing net income (loss) per share:		
Basic	40.2	39.6
Diluted	41.0	39.6

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

[2] Refer to Note 1 – Basis of Presentation for disclosure of related party amounts.
The accompanying notes are an integral part of these condensed consolidated financial statements.

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Item 1. Condensed Consolidated Financial Statements (unaudited)

athenahealth, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, amounts in millions, except per share amounts)

	March 31, 2018	December 31, 2017 [(1)]
Assets		
Current assets:		
Cash and cash equivalents	$ 142.0	$ 165.1
Accounts receivable, net	193.4	169.5
Contract assets	86.4	—
Prepaid expenses and other current assets	56.0	46.8
Total current assets	477.8	381.4
Property and equipment, net	350.4	355.1
Capitalized software costs, net	144.2	139.7
Purchased intangible assets, net	103.1	108.6
Goodwill	274.4	274.4
Deferred tax assets, net	0.8	41.8
Other assets [(2)]	96.6	31.3
Total assets	$ 1,447.3	$ 1,332.3
Liabilities & Stockholders' Equity		
Current liabilities:		
Accounts payable [(3)]	$ 8.9	$ 10.6
Accrued compensation	68.6	94.7
Accrued expenses [(3)]	46.0	51.5
Current portion of long-term debt	22.1	20.2
Deferred revenue	30.7	30.7
Total current liabilities	176.3	207.7
Deferred rent, net of current portion	29.5	29.3
Long-term debt, net of current portion	247.1	252.6
Long-term deferred tax liability, net	15.3	—
Deferred revenue, net of current portion	1.3	46.5
Other long-term liabilities	4.4	4.7
Total liabilities	473.9	540.8
Commitments and contingencies (Note 1)		
Stockholders' equity:		
Preferred stock, $0.01 par value: 5.0 shares authorized; no shares issued and outstanding at March 31, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value: 125.0 shares authorized; 40.4 shares issued and outstanding at March 31, 2018; 40.1 shares issued and outstanding at December 31, 2017	0.4	0.4
Additional paid-in capital	654.3	646.7
Accumulated other comprehensive loss	(0.7)	(0.4)
Retained earnings	319.4	144.8
Total stockholders' equity	973.4	791.5
Total liabilities and stockholders' equity	$ 1,447.3	$ 1,332.3

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

[2] Includes deferred commissions and contract fulfillment costs

[3] Refer to Note 1 – Basis of Presentation for disclosure of related party amounts.
The accompanying notes are an integral part of these condensed consolidated financial statements.

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athenahealth, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, amounts in millions)

	Three Months Ended March 31,	
	2018	2017 (1)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$31.1	$(1.4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property, equipment, capitalized software, and purchased intangible assets	38.1	37.5
Amortization of deferred commissions and contract fulfillment costs	1.8	—
Deferred income tax	8.0	1.0
Stock-based compensation expense	14.0	14.2
Other reconciling adjustments	4.6	0.1
Changes in operating assets and liabilities:		
Accounts receivable, net	(23.8)	(2.7)
Contract assets	(9.0)	—
Prepaid expenses and other current assets	(9.2)	(7.2)
Deferred commissions and contract fulfillment costs and other long-term assets	(8.1)	0.3
Accounts payable	(1.4)	(1.2)
Accrued expenses, deferred rent, and other long-term liabilities	(0.5)	0.4
Accrued compensation	(23.0)	(28.1)
Deferred revenue	7.6	3.7
Net cash provided by operating activities	30.2	16.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized software costs	(26.1)	(24.8)
Purchases of property and equipment	(16.0)	(24.9)
Net cash used in investing activities	(42.1)	(49.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock under stock plans	6.4	5.5
Taxes paid related to net share settlement of stock awards	(13.5)	(14.5)
Payments on long-term debt	(3.8)	(7.5)
Net cash used in financing activities	(10.9)	(16.5)
Effect of exchange rate changes on cash and cash equivalents	(0.3)	0.2
Net decrease in cash and cash equivalents	(23.1)	(49.4)
Cash and cash equivalents at beginning of period	165.1	147.4
Cash and cash equivalents at end of period	$142.0	$98.0
Non-cash transaction		
Property, equipment, and purchased and internally-developed software recorded in accounts payable, accrued expenses and accrued compensation	$9.0	$22.5
Additional disclosures		
Cash paid for interest, net	$1.6	$1.6
Cash paid for taxes	$2.0	$—

(1) Amounts are not restated and represent the amounts recognized under generally accepted accounting principles in place during that period. Refer to Note 1 – Basis of Presentation for discussion on recently adopted accounting

pronouncements and a reconciliation to previous presentation.

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

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athenahealth, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, amounts in millions, except per share amounts)

1. BASIS OF PRESENTATION
General – The accompanying unaudited condensed consolidated financial statements have been prepared by athenahealth, Inc. (which we refer to as the Company, we, us, or our) in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial reporting and as required by Regulation S-X, Rule 10-01, and include the results of operations of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP for complete financial statements. In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of items of a normal and recurring nature) necessary to fairly present the financial position as of March 31, 2018 and December 31, 2017, as indicated above, the results of operations for the three months ended March 31, 2018 and 2017, and cash flows for the three months ended March 31, 2018 and 2017. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year. When preparing financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses during the reporting period. Actual results could differ from those estimates, and such differences could be material.

We have revised the condensed consolidated statements of cash flows for the three months ended March 31, 2017 to correct the $7.8 million classification previously reported in the accrued compensation line in operating activities by reclassifying it to the capitalized software costs line in investing activities. This revision had the effect of increasing previously reported net cash provided by operating activities and increasing net cash used in investing activities by $7.8 million each.

Recently Adopted Pronouncements

Revenue from Contracts with Customers

We adopted the new revenue recognition standard on January 1, 2018 using a modified retrospective adoption methodology, whereby the cumulative impact of all prior periods is recorded in retained earnings or other impacted balance sheet line items upon adoption. Under the modified retrospective adoption method, we elected to retroactively adjust, inclusive of all previous modifications, only those contracts that were considered open at the date of initial application. Refer to Note 2 – Revenue and Contract Costs for further information along with our new accounting policies.

The aggregation of the adjustments resulted in an adjustment to opening retained earnings as follows:

	Cumulative Effect of Adoption Impact of New Revenue Standard January 1, 2018

Contract assets	$ 77.4
Deferred tax assets, net	(40.9)
Other assets [1]	61.5
Total assets	$ 98.0
Deferred revenue, current	(8.1)
Deferred revenue, net of current portion	(44.8)
Deferred tax liability, net	7.4
Retained earnings	143.5
Total liabilities and stockholders' equity	$ 98.0

[1] Adjustment to this line item represents the effect of the new revenue standard adoption on deferred commissions and contract fulfillment costs, of $37.7 million and $23.8 million, respectively.

The following table reconciles the balances as presented for the three months ended March 31, 2018 to the balances prior to the adjustments made to implement the new revenue recognition standard for the same period:

athenahealth, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, amounts in millions, except per share amounts)

	As Presented	Impact of New Revenue Standard	Previous Revenue Standard
Revenue	$ 329.4	$ 9.1	$ 320.3
Cost of revenue	154.0	4.1	158.1
Gross profit	175.4	13.2	162.2
Other operating expenses:			
Selling and marketing	49.7	2.8	52.5
Research and development	48.2	—	48.2
General and administrative	35.4	—	35.4
Total other operating expenses	133.3	2.8	136.1
Operating income	42.1	16.0	26.1
Other expense	(2.6)	—	(2.6)
Income before income tax provision	39.5	16.0	23.5
Income tax provision	8.4	4.0	4.4
Net income	$ 31.1	$ 12.0	$ 19.1
Foreign currency translation adjustment	(0.3)	—	(0.3)
Comprehensive income	$ 30.8	$ 12.0	$ 18.8
Net income per share – Basic	$ 0.77	$ 0.30	$ 0.47
Net income per share – Diluted	$ 0.76	$ 0.29	$ 0.47

As we ceased amortizing implementation fees under the new revenue recognition standard, we condensed our implementation and other line item into a single revenue line item. The following table disaggregates total revenue into the format previously presented:

	Previous Revenue Standard Three Months Ended March 31,	
	2018	2017
Business services	$313.3	$278.3
Implementation and other	7.0	7.1
Total revenue	$320.3	$285.4

Financial Instruments

In January 2016, a new accounting standard was issued to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The most significant impact to our consolidated financial statements relates to the recognition and measurement of equity instruments without readily determinable fair values which were previously carried at cost less any impairment determined to be other than temporary. Under the new standard, we will measure all equity investments without readily determinable fair values at cost, less impairment, adjusted by observable price changes, such as equity financings, for the same or similar investment from the same issuer. Gains and losses will be recorded in our condensed consolidated statements of income and comprehensive income on a prospective basis. We adopted this accounting standard on January 1, 2018 and the impact on our condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2018 was not material; however, the impact could be material in future periods.

Related Party Transactions – We have a long-term investment in Access Healthcare Services Private Limited, or Access, a vendor that provides primarily business process outsourcing services for us. Our contractual obligations with Access include a purchase obligation that limits our ability to decrease our purchased services more than 33% from the previous calendar year's volume.

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

The tables below present the amounts included within each of the applicable financial statement line items resulting from transactions with our related party:

	Three months ended March 31,	
	2018	2017
Cost of revenue	$17.6	$14.3
Research and development	0.2	—

	March 31, 2018	December 31, 2017
Accounts payable	$ —	$ 5.6
Accrued expenses	6.4	5.7

Exit Costs, Including Restructuring Costs – During the three months ended March 31, 2018, we recorded a charge of $5.2 million associated with the cost reduction plan we announced in 2017, of which $1.3 million was recorded in cost of revenue and $3.7 million was recorded in general and administrative expense. The activity related to the exit cost accrual during the three months ended March 31, 2018 consists of the following:

	Workforce Reductions
Accrual at December 31, 2017	$ 3.4
Additions	1.6
Cash Payments	(3.4)
Accrual at March 31, 2018	$ 1.6

Commitments and Contingencies – We are engaged from time to time in certain legal disputes arising in the ordinary course of business, including employment discrimination claims and challenges to our intellectual property. We believe that we have adequate legal defenses and that the likelihood of a loss contingency relating to the ultimate disposition of any of these disputes is remote. When the likelihood of a loss contingency becomes at least reasonably possible with respect to any of these disputes, or, as applicable in the future, if there is at least a reasonable possibility that a loss exceeding amounts already recognized may have been incurred, we will revise our disclosures in accordance with the relevant authoritative guidance.
Additionally, we will accrue a liability for loss contingencies when we believe that it is both probable that a liability has been incurred and that we can reasonably estimate the amount of the loss. We will review these accruals and adjust them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel, and other relevant information. To the extent new information is obtained, and our views on the probable outcomes of claims, suits, assessments, investigations, or legal proceedings change, changes in our accrued liabilities would be recorded in the period in which such determination is made. We expense legal costs, including those incurred in connection with loss contingencies, as incurred.

New Accounting Pronouncement Not Yet Adopted

Leases

In February 2016, a new accounting standard was issued for leases. The new standard most significantly impacts lessee accounting and disclosures, but also requires enhanced disclosures for lessors. First, this standard requires lessees to identify arrangements that should be accounted for as leases. Under this standard, for lease arrangements exceeding a 12-month term, a right-of-use asset and lease obligation is recorded by the lessee for all leases, whether operating or financing, while the statements of income and comprehensive income reflects lease expense for operating leases and amortization and interest expense for financing leases. Leases with a term of 12 months or less will be accounted for similar to the existing standard for operating leases. In addition, the new lease standard requires the use of the modified retrospective method. This standard is effective for public companies for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted; however, we expect to adopt this standard on January 1, 2019. We anticipate that this standard will have a material impact on our consolidated financial statements, as all long-term leases will be capitalized on the condensed consolidated balance sheet.

2. REVENUE AND CONTRACT COSTS

New Revenue Recognition Accounting Policy

All revenue is recognized as our performance obligations are satisfied. We derive the majority of our revenue from business services associated with our integrated, network-enabled services. Our integrated athenaOne services for healthcare practices and medical groups and for hospitals and health systems, as well as related standalone services, consist of medical billing and practice management; electronic health records, or EHR; patient engagement; and order transmission and care coordination, which are supported by our network, athenaNet; we refer to such offerings collectively as athenaOne. We consider the series of services provided under athenaOne to be one performance obligation. Examples of other performance obligations that we have include other athenahealth-branded services such as our population health offering and those related to supporting athenaOne, including professional services and consulting work, and various services under the Epocrates® brand name. Each of these performance obligations is satisfied and recognized over time, which is typically one month or less.

Our clients typically purchase service contracts for our integrated, network-enabled services that renew automatically. In many cases, our clients may terminate their agreements with 90 days' notice without cause, thereby limiting the term in which we have enforceable rights and obligations, although this time period can vary from client to client. For athenaOne service arrangements, the majority of our fees are variable consideration contingent upon the collections of our clients. We provide value to our clients over the term of the contract, and we recognize revenue ratably over the term, which is consistent with the measure of progress. In the event that we are entitled to variable consideration for services provided during a specified time period, fees for these services are allocated to and recognized over the specified time period.

We estimate the variable consideration which we expect to be entitled to over the contractual period associated with our athenaOne contracts, which begins no earlier than go-live, and recognize the fees over the term. The estimate of variable consideration included in the transaction price typically involves estimating the amounts our clients will ultimately collect associated with the services they provide with the assistance of athenaNet and the relative fee we charge associated with those collections. Inputs to these estimates include, but are not limited to, historical service fees, historical collection amounts, the timing of historical collections relative to the timing of when claims are submitted by our clients to their respective payers, macro trends, and trends amongst certain types of similar clients. When reviewing our estimates, in order to ensure that our estimates do not pose a risk of significantly overstating our revenue in any reporting period, we will apply constraints, when appropriate, to certain estimates around our variable consideration. Management will perform analyses periodically to verify the accuracy of our estimates of variable consideration.

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

Disaggregation of Revenue from Contracts with Customers

The following table provides information about our revenue by service offering:

	Three Months Ended March 31, 2018
Service offerings:	
athenaOne	$ 305.9
Other athenahealth-branded services	9.7
Epocrates	9.6
Other	4.2
Total revenue	$ 329.4

New Contract Assets and Deferred Revenue Accounting Policy

Due to our go-to-market strategy wherein we do not have a contractual right to bill clients until their collections from various payers are posted to athenaNet, we recognize revenue in advance of our right to payment from our clients. Our clients are billed monthly, in arrears, typically based upon a percentage of collections posted to athenaNet. Amounts recognized as revenue prior to our right to collections are recorded in our contract asset balance. Amounts that we are entitled to collect under the contract are recorded as accounts receivable. Our contract asset balance at March 31, 2018 was $86.4 million. Changes in the contract asset balance primarily consist of increases as a result of providing services that result in additional consideration and are offset by our right to payment for services becoming unconditional. Our deferred revenue balances mainly consist of fees paid by our clients for which the associated services have not been performed. Deferred revenue, which was $32.0 million as of March 31, 2018, primarily relates to our Epocrates services.

New Deferred Commissions and Contract Fulfillment Costs Accounting Policies

Our sales incentive plans include commissions payable to employees and third parties at the time of initial contract execution that are capitalized as incremental costs to obtain a contract. The capitalized commissions are amortized over the period the related services are transferred including consideration of expected client renewals. As we do not offer commissions on contract renewals, we have determined the amortization period to be the estimated client life, which we have estimated to be 12 years. Deferred commissions were $40.6 million at March 31, 2018 and are included in the other assets line on our condensed consolidated balance sheet.

During implementation and prior to go-live, we incur certain contract fulfillment costs primarily related to the configuration of athenaNet for our clients. These costs are capitalized to the extent they are directly related to a contract, are recoverable, and create a resource used to deliver our athenaOne and other athenahealth-branded business services. These costs are amortized over the period the related services are transferred including consideration of expected client renewals, which is based upon our estimate of the client life. Contract fulfillment costs were $28.1 million at March 31, 2018 and are included in the other assets line on our condensed consolidated balance sheet.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, amounts in millions, except per share amounts)

3. BUSINESS COMBINATIONS
Praxify
On June 23, 2017, we acquired Praxify Technologies, Inc., or Praxify, a Palo Alto-based company focused on reinventing how doctors work with health data to help drive productivity, portability, and improved decision support. We acquired Praxify with the goal of advancing our platform strategy and mobile capabilities to drive streamlined workflows and intelligence at and around the moments of care. We anticipate that this acquisition will accelerate our research and development initiatives by adding significant expertise in mobile and user experience design. Additionally, the underlying technology on which Praxify is built will be integrated into our platform, and we anticipate it will create new opportunities for both internal and third-party developers to rapidly build and launch applications.
The purchase price of Praxify was $41.1 million, net of cash acquired. The purchase price excludes $16.5 million expected to be earned by key employees of Praxify based upon continued employment, which is accounted for as compensation expense and is being recognized in the condensed consolidated statements of income and comprehensive income over the requisite service period. As of both March 31, 2018 and December 31, 2017, there was $5.5 million of prepaid compensation expense related to retention bonuses made at the time of acquisition included in the prepaid expenses and other current assets line; as of March 31, 2018 and December 31, 2017, there was $6.6 million and $8.0 million, respectively, of prepaid compensation expense in the other assets line on our condensed consolidated balance sheets. The fair value of net assets acquired primarily consisted of purchased intangible assets of $15.7 million related to technology. The $33.8 million excess of purchase consideration over the fair value of the net assets acquired was allocated to goodwill, which is not deductible for U.S. income tax purposes. We incurred transaction costs of $1.4 million associated with this acquisition.

4. NET INCOME (LOSS) PER SHARE
Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period under the treasury stock method. Potentially dilutive securities include stock options, restricted stock units, and shares to be purchased under the employee stock purchase plan. Under the treasury stock method, dilutive securities are assumed to be exercised at the beginning of the periods and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Securities are excluded from the computation of diluted net income (loss) per share if their effect would be anti-dilutive to earnings per share; therefore, in periods of net loss, shares used to calculate basic and diluted net loss per share are equivalent.
The following table reconciles the weighted average shares outstanding for basic and diluted net income (loss) per share for the periods indicated:

	Three Months Ended March 31,	
	2018	2017
Net income (loss)	$31.1	$(1.4)
Weighted average shares used in computing basic net income (loss) per share	40.2	39.6
Net income (loss) per share – Basic	$0.77	$(0.03)
Net income (loss)	$31.1	$(1.4)
Weighted average shares used in computing basic net income (loss) per share	40.2	39.6
Effect of dilutive securities	0.8	—
Weighted average shares used in computing diluted net income (loss) per share	41.0	39.6

Net income (loss) per share – Diluted	$0.76	$(0.03)

The computation of diluted net income per share does not include 0.3 million shares for the three months ended March 31, 2018 because their inclusion would have an anti-dilutive effect on net income per share. No shares were excluded from the computation of diluted net loss per share for the three months ended March 31, 2017.

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of March 31, 2018 and December 31, 2017, the carrying amounts of cash and cash equivalents, receivables, accounts payable, and accrued expenses approximated their estimated fair values because of the short-term nature of these financial instruments. Money market funds are valued using a market approach based upon the quoted market prices of identical instruments when available or other observable inputs such as trading prices of identical instruments in inactive markets or similar securities.

Our MDP Accelerator program is designed to cultivate health care information technology start-ups and expand services offered to our provider network. MDP Accelerator portfolio investments and our other direct investments are typically made in the form of convertible notes receivable or equity investments, which are included in other assets on our condensed consolidated balance sheets. At March 31, 2018, as there is no indication of performance risk, we estimate that the fair value of the notes receivable approximates cost based on inputs including the original transaction prices, our own recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investments, subsequent rounds of financing, and changes in financial ratios or cash flows.

As of March 31, 2018 and December 31, 2017, we had $270.0 million and $273.8 million, respectively, outstanding on our term loan facility and we had not drawn on the revolving credit facility under our senior credit facility. The credit facility carries a variable interest rate set at current market rates, which is the primary driver in our conclusion that the carrying value approximates fair value.

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities, and fair values determined by Level 2 inputs utilize quoted prices in inactive markets for identical assets or liabilities obtained from readily available pricing sources for similar instruments. The fair values determined by Level 3 inputs are unobservable values which are supported by little or no market activity. It is our policy to recognize transfers between levels of the fair value hierarchy, if any, at the end of the reporting period; however, there have been no such transfers during any of the periods presented.

	Fair Value Measurements as of March 31, 2018, Using			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market	$ 0.1	$ —	$ —	$ 0.1
Debt securities:				
MDP Accelerator portfolio	—	—	0.5	0.5
Total assets	$ 0.1	$ —	$ 0.5	$ 0.6

	Fair Value Measurements as of December 31, 2017, Using			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market	$ 0.1	$ —	$ —	$ 0.1
Debt securities:				