

ALLSCRIPTS HEALTHCARE SOLUTIONS INC

Form 10-Q

August 08, 2008

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**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 June 30, 2008

OR

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 000-32085

**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-4392754**  
(I.R.S. Employer

Identification Number)

**222 Merchandise Mart, Suite 2024**

**Chicago, IL 60654**

(Address of principal executive offices)

**(866) 358-6869**

(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  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 definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  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

As of July 31, 2008, there were 57,319,706 shares of the registrant's \$0.01 par value common stock outstanding.

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**Table of Contents****PART I . FINANCIAL INFORMATION****Item 1. Financial Statements****ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share amounts)**

|  | <b>June 30,<br/>2008<br/>(unaudited)</b> | <b>December 31,<br/>2007</b> |
|--|--|------------------------------|
| <b>ASSETS</b>  |  |                              |
| Current assets:  |  |                              |
| Cash and cash equivalents  | \$50,844                                 | \$43,785                     |
| Marketable securities  | 11,904                                   | 5,759                        |
| Accounts receivable, net of allowances of \$5,488 and \$4,190 at June 30, 2008 and December 31, 2007, respectively               | 83,847                                   | 81,351                       |
| Deferred taxes, net  | 6,888                                    | 16,650                       |
| Inventories  | 5,373                                    | 4,178                        |
| Prepaid expenses and other current assets  | 17,582                                   | 17,401                       |
| <b>Total current assets</b>  | <b>176,438</b>                           | <b>169,124</b>               |
| Long-term marketable securities  | 3,307                                    | 13,459                       |
| Fixed assets, net  | 21,147                                   | 18,238                       |
| Software development costs, net  | 25,833                                   | 24,115                       |
| Intangible assets, net   | 100,638                                  | 107,503                      |
| Goodwill   | 249,808                                  | 240,452                      |
| Other assets   | 3,635                                    | 5,252                        |
| <b>Total assets</b>  | <b>\$580,806</b>                         | <b>\$578,143</b>             |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |  |                              |
| Current liabilities:   |  |                              |
| Accounts payable   | \$8,888                                  | \$15,911                     |
| Accrued expenses   | 20,499                                   | 17,266                       |
| Accrued acquisition obligation   |  | 8,946                        |
| Accrued compensation   | 8,043                                    | 5,441                        |
| Deferred revenue   | 50,614                                   | 45,940                       |
| Current portion of long-term debt  | 290                                      | 279                          |
| Other current liabilities  |  | 274                          |
| <b>Total current liabilities</b>   | <b>88,334</b>                            | <b>94,057</b>                |
| Long-term debt   | 135,014                                  | 135,162                      |
| Deferred taxes, net  | 8,216                                    | 6,179                        |
| Other liabilities  | 1,791                                    | 2,105                        |
| <b>Total liabilities</b>   | <b>233,355</b>                           | <b>237,503</b>               |
| Preferred stock:   |  |                              |
| Undesignated, \$0.01 par value, 1,000 shares authorized, no shares issued and outstanding at June 30, 2008 and December 31, 2007 |  |                              |
| Common stock:  |  |                              |

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\$0.01 par value, 150,000 shares authorized; 57,319 issued and outstanding at June 30, 2008; 56,918 issued and outstanding at December 31, 2007

|  |           |           |
|--|-----------|-----------|
|  | 573       | 569       |
| Additional paid-in capital                 | 857,887   | 853,402   |
| Accumulated deficit                        | (510,810) | (513,242) |
| Accumulated other comprehensive loss       | (199)     | (89)      |
| Total stockholders' equity                 | 347,451   | 340,640   |
| Total liabilities and stockholders' equity | \$580,806 | \$578,143 |

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

**Table of Contents****ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

|   | <b>Three Months Ended<br/>June 30,</b> |                | <b>Six Months Ended<br/>June 30,</b> |                 |
|---|--|----------------|--------------------------------------|-----------------|
|   | <b>2008</b>                            | <b>2007</b>    | <b>2008</b>                          | <b>2007</b>     |
|   | <b>(Unaudited)</b>                     |                |                                      |                 |
| <b>Revenue:</b>   |  |                |                                      |                 |
| Software and related services   | \$68,179                               | \$54,681       | \$126,797                            | \$105,921       |
| Prepackaged medications   | 9,493                                  | 10,939         | 19,088                               | 21,168          |
| Information services  | 3,840                                  | 4,421          | 7,716                                | 7,974           |
| <b>Total revenue</b>  | <b>81,512</b>                          | <b>70,041</b>  | <b>153,601</b>                       | <b>135,063</b>  |
| <b>Cost of revenue:</b>   |  |                |                                      |                 |
| Software and related services   | 29,967                                 | 22,797         | 55,886                               | 45,179          |
| Prepackaged medications   | 7,848                                  | 9,141          | 15,461                               | 17,449          |
| Information services  | 2,547                                  | 2,632          | 5,063                                | 4,691           |
| <b>Total cost of revenue</b>  | <b>40,362</b>                          | <b>34,570</b>  | <b>76,410</b>                        | <b>67,319</b>   |
| <b>Gross profit</b>   | <b>41,150</b>                          | <b>35,471</b>  | <b>77,191</b>                        | <b>67,744</b>   |
| Selling, general and administrative expenses  | 32,850                                 | 25,425         | 64,243                               | 47,799          |
| Amortization of intangible assets   | 3,439                                  | 2,576          | 6,878                                | 5,152           |
| <b>Income from operations</b>   | <b>4,861</b>                           | <b>7,470</b>   | <b>6,070</b>                         | <b>14,793</b>   |
| Interest expense  | (1,383)                                | (930)          | (3,027)                              | (1,863)         |
| Interest income and other, net  | 377                                    | 1,106          | 942                                  | 2,143           |
| Gain on sale of equity investment   |  | 2,392          |                                      | 2,392           |
| <b>Income before income taxes</b>   | <b>3,855</b>                           | <b>10,038</b>  | <b>3,985</b>                         | <b>17,465</b>   |
| Provision for income taxes  | 1,503                                  | 4,010          | 1,553                                | 6,970           |
| <b>Net income</b>   | <b>\$2,352</b>                         | <b>\$6,028</b> | <b>\$2,432</b>                       | <b>\$10,495</b> |
| <b>Net income per share basic</b>   | <b>\$0.04</b>                          | <b>\$0.11</b>  | <b>\$0.04</b>                        | <b>\$0.19</b>   |
| <b>Net income per share diluted</b>   | <b>\$0.04</b>                          | <b>\$0.10</b>  | <b>\$0.04</b>                        | <b>\$0.18</b>   |
| <b>Weighted-average shares of common stock outstanding used in computing basic net income per share</b>   | <b>56,766</b>                          | <b>55,648</b>  | <b>56,635</b>                        | <b>55,146</b>   |
| <b>Weighted-average shares of common stock outstanding used in computing diluted net income per share</b> | <b>57,772</b>                          | <b>64,802</b>  | <b>57,570</b>                        | <b>64,327</b>   |

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



**Table of Contents****ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

|  | <b>Six Months Ended<br/>June 30,</b> |                 |
|--|--------------------------------------|-----------------|
|  | <b>2008</b>                          | <b>2007</b>     |
| <b>Cash flows from operating activities:</b>   |                                      |                 |
| Net income   | \$2,432                              | \$10,495        |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                      |                 |
| Depreciation and amortization  | 14,391                               | 9,101           |
| Stock-based compensation expense   | 3,572                                | 1,280           |
| Gain on sale of equity investment  |                                      | (2,392)         |
| Realized loss on investments   | 12                                   | 35              |
| Provision for doubtful accounts  | 3,060                                | 1,377           |
| Deferred taxes   | 2,301                                | 6,128           |
| <b>Changes in operating assets and liabilities:</b>                                      |                                      |                 |
| Accounts receivable  | (5,556)                              | (15,489)        |
| Inventories  | (1,195)                              | (765)           |
| Prepaid expenses and other assets  | 1,863                                | (4,021)         |
| Accounts payable   | (7,022)                              | 2,965           |
| Accrued expenses   | 1,949                                | (1,454)         |
| Accrued compensation   | 2,602                                | (3,345)         |
| Deferred revenue   | 4,674                                | 3,064           |
| Other current liabilities  | (725)                                | (63)            |
| <b>Net cash provided by operating activities</b>   | <b>22,358</b>                        | <b>6,916</b>    |
| <b>Cash flows from investing activities:</b>   |                                      |                 |
| Capital expenditures   | (5,657)                              | (5,104)         |
| Capitalized software   | (6,170)                              | (8,035)         |
| Purchase of marketable securities  |                                      | (17,485)        |
| Maturities of marketable securities  | 3,885                                | 11,373          |
| Sale of equity investment  |                                      | 2,592           |
| Net payments for purchase of Extended Care Information Network, Inc.                     | (9,024)                              |                 |
| Net payments for purchase of A4 Health Systems, Inc.                                     |                                      | (265)           |
| <b>Net cash used in investing activities</b>   | <b>(16,966)</b>                      | <b>(16,924)</b> |
| <b>Cash flows from financing activities:</b>   |                                      |                 |
| Proceeds from exercise of common stock options   | 1,312                                | 7,453           |
| Proceeds from employee stock purchase plan, net  | 355                                  | 470             |
| <b>Net cash provided by financing activities</b>   | <b>1,667</b>                         | <b>7,923</b>    |
| <b>Net increase (decrease) in cash and cash equivalents</b>                              | <b>7,059</b>                         | <b>(2,085)</b>  |
| Cash and cash equivalents, beginning of period   | 43,785                               | 42,461          |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$50,844</b>                      | <b>\$40,376</b> |

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





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**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited, dollar and share amounts in thousands, except per-share amounts)**

**1. Basis of Presentation**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ( SEC ). The interim consolidated financial statements include the consolidated accounts of Allscripts Healthcare Solutions, Inc. and its wholly-owned subsidiaries ( Allscripts or the Company ) with all significant intercompany transactions eliminated. In management's opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. These financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2007, in Allscripts' Annual Report on Form 10-K, filed with the SEC on February 29, 2008. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results for the full year. Certain of the 2007 amounts in the accompanying financial statements have been reclassified to conform to the presentation in this report.

**2. Revenue Recognition**

Revenue from software licensing arrangements, where the service element is considered essential to the functionality of the other elements of the arrangement, is accounted for under American Institute of Certified Public Accountants Statement of Position ( SOP ) 81-1, Accounting for Performance of Construction-Type Contracts and Certain Production-Type Contracts. Allscripts recognizes revenue on an input basis using actual hours worked as a percentage of total expected hours required by the arrangement, provided that the fee is fixed and determinable and collection of the receivable is probable. Maintenance and support from these agreements is recognized over the term of the support agreement based on vendor-specific objective evidence of fair value of the maintenance revenue, which is generally based upon contractual renewal rates. For agreements that are deemed to have extended payment terms, revenue is recognized using the input method but is limited to the amounts due and payable.

Revenue from software licensing arrangements where the service element is not considered essential to the functionality of the other elements of the arrangement is accounted for under SOP 97-2, Software Revenue Recognition, as amended by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions. Such revenue is recognized upon shipment of the software or as services are performed, provided persuasive evidence of an arrangement exists, fees are considered fixed and determinable, and collection of the receivable is considered probable. The revenue recognized for each separate element of a multiple-element software contract is based upon vendor-specific objective evidence of fair value, which is based upon the price the customer is required to pay when the element is sold separately.

Revenue from certain value-added reseller ( VAR ) relationships in which software is directly sold to VARs is recognized upon delivery of the software in accordance with SOP 97-2 assuming all other revenue recognition criteria have been met. In certain instances, the ultimate end-user customers of the VARs will separately contract with Allscripts to perform implementation services relating to the software purchased. Under the provisions of SOP 97-2 these two independent transactions are accounted for separately with the software sold to the VARs being recognized upon software delivery and the implementation services contracted separately with the end-user VAR customers being recognized as the work is performed.

Revenue from the prepackaged medications segment, from the sale of medications, net of provisions for estimated returns, is recognized upon shipment of the pharmaceutical products, the point at which the customer takes ownership and assumes risk of loss, when no performance obligations remain and collection of the receivable is probable. Allscripts offers the right of return on pharmaceutical products under various policies and estimates and maintains reserves for product returns based on historical experience following the provisions of FAS No. 48, Revenue Recognition When Right of Return Exists.

Certain of our customer arrangements in our information services segment encompass multiple deliverables. We account for these arrangements in accordance with Emerging Issues Task Force ( EITF ) No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables ( EITF 00-21 ). If the deliverables meet the separation criteria in EITF 00-21, the deliverables are separated into separate units of accounting, and revenue is allocated to the deliverables based on their relative fair values. The criteria specified in EITF 00-21 are that the delivered item has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered item, and if the

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arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. Applicable revenue recognition criteria is considered separately for each separate unit of accounting.

Management applies judgment to ensure appropriate application of EITF 00-21, including value allocation among multiple deliverables, determination of whether undelivered elements are essential to the functionality of delivered elements and timing of

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revenue recognition, among others. For those arrangements where the deliverables do not qualify as a separate unit of accounting, revenue from all deliverables is treated as one accounting unit and recognized on a straight-line basis over the term of the arrangement. Changes in circumstances and customer data may affect management's analysis of EITF 00-21 criteria, which may cause Allscripts to adjust upward or downward the amount of revenue recognized under the arrangement.

In accordance with EITF issued Consensus 01-14, Income Statement Characterization of Reimbursements for Out-of-Pocket Expenses Incurred, revenue includes reimbursable expenses charged to our clients.

In June 2006, the Financial Accounting Standards Board ( FASB ) ratified the consensus reached on EITF No. 06-3 ( EITF 06-3), How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation). Allscripts presents any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on a net basis. We did not modify our accounting policy in connection with the adoption of EITF 06-3, and therefore the adoption of this EITF did not have an impact on our consolidated results of operations or financial condition.

As of June 30, 2008 and December 31, 2007, there was \$20,154 and \$18,400, respectively, of revenue earned on contracts in excess of billings, which are included in the balance of accounts receivable. Billings on contracts where revenue has been earned in excess of billings are expected to occur according to the contract terms. Deferred revenue consisted of the following:

|   | June 30,<br>2008 | December 31,<br>2007 |
|---|------------------|----------------------|
| Prepayments and billings in excess of revenue earned on contracts in progress for software and services provided by Allscripts and included in the software and related services segment  | \$19,712         | \$25,669             |
| Prepayments and billings in excess of revenue earned on contracts in progress for support and maintenance provided by Allscripts and included in the software and related services segment  | 29,605           | 15,623               |
| Prepayments and billings in excess of revenue earned for interactive physician education sessions and related services provided by the Allscripts physicians interactive business unit and included in the information services segment | 1,297            | 4,648                |
| Total deferred revenue  | \$50,614         | \$45,940             |

**3. Business Combinations*****Misys Healthcare Systems, LLC***

On March 17, 2008, Allscripts entered into an Agreement and Plan of Merger (the Merger Agreement ) with Misys plc ( Misys ), a public limited company incorporated under the laws of England and Wales, Misys Healthcare Systems, LLC ( MHS ), a North Carolina limited liability company and wholly-owned indirect subsidiary of Misys and Patriot Merger Company, LLC, a North Carolina limited liability company and wholly-owned subsidiary of Allscripts ( Patriot ).

The Merger Agreement provides for (i) the purchase by Misys or its affiliated designee of \$330,000 ( the Share Purchase ) and (ii) the merger of Patriot with and into MHS, with MHS being the surviving company (the Merger and together with the Share Purchase, the Transactions ). At the effective time of, and as a result of the Merger, each issued and outstanding limited liability company interest of MHS shall be cancelled and converted into the right to receive that number of newly issued shares of Allscripts common stock that, together with the shares of Allscripts common stock to be purchased by Misys or its affiliated designee in the Share Purchase, shall equal 54.5% of the aggregate number of Allscripts fully-diluted shares. Pursuant to the Merger Agreement, Allscripts will declare and pay a special cash dividend of \$330,000, in the aggregate, to holders of Allscripts common stock as of the close of business on the business day immediately prior to the date on which the Merger is consummated.

Consummation of the Transactions is subject to various conditions, including, without limitation, the approval by the stockholders of the Company and the shareholders of Misys, respectively, no legal impediment, the receipt of required regulatory approvals, the absence of a material adverse effect on the Company and MHS, and, unless Misys makes the tax election specified in the Merger Agreement, the receipt of an opinion from legal counsel that the Merger constitutes a tax-free reorganization under Section 368(a) of the Internal Revenue Code. There is not a financing condition to the consummation of the Transactions.



**Table of Contents*****Extended Care Information Network, Inc.***

On December 31, 2007, Allscripts completed its acquisition of Extended Care Information Network, Inc. ( ECIN ), for a total of \$93,525 (which includes repayment of ECIN 's indebtedness and transaction expenses). ECIN is a provider of hospital care management and discharge planning solutions. In connection with the ECIN acquisition, Allscripts created a new hospital solutions group designed to provide products and services under one umbrella, combining ECIN with Allscripts ' existing emergency department information systems and its care management solution, Canopy.

The ECIN acquisition has been accounted for as a business combination under Statement of Financial Accounting Standards ( SFAS ) No. 141, Business Combinations. The assets acquired and liabilities assumed have been recorded at the date of acquisition at their respective fair values.

The results of operations of ECIN are included in the accompanying consolidated statements of operations for the three and six months ended June 30, 2008. The total purchase price for the acquisition, subject to finalization of the working capital adjustment as defined in the merger agreement, is \$93,525 and is broken down as follows:

|   |              |
|---|--------------|
| Cash paid for acquisition of ECIN (includes consideration to shareholders, payment of ECIN indebtedness and certain ECIN transaction costs) | \$90,000     |
| Preliminary net working capital payment   | 2,870        |
| Acquisition-related transaction costs   | 655          |
| <br>Total preliminary purchase price  | <br>\$93,525 |

The above purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed based on management 's estimates of their current fair values. Acquisition-related transaction costs include investment banking fees, loan commitment fees, legal and accounting fees and other external costs directly related to the ECIN acquisition.

The purchase price has been allocated as follows:

|  |              |
|--|--------------|
| Acquired cash                            | \$5,723      |
| Accounts receivable, net                 | 3,065        |
| Prepays and other current assets         | 667          |
| Fixed assets and other long-term assets  | 3,876        |
| Goodwill                                 | 63,337       |
| Intangible assets                        | 31,170       |
| Deferred tax liability, net              | (9,746)      |
| Accounts payable and accrued liabilities | (1,989)      |
| Deferred revenue                         | (2,261)      |
| Other liabilities                        | (317)        |
| <br>Net assets acquired                  | <br>\$93,525 |

Goodwill was determined based on the residual difference between the purchase cost and the value assigned to tangible and intangible assets and liabilities, and is not deductible for tax purposes. Among the factors that contributed to a purchase price resulting in the recognition of goodwill were ECIN 's history of profitability and high operating margins, strong sales force and overall employee base, and leadership position in the healthcare information technology market. We have allocated \$63,337 to goodwill and \$31,170 to intangible assets. Of the \$31,170 intangible assets acquired, \$11,620 was assigned to developed technology rights with a useful life of 7 years, \$750 was assigned to trade names with a useful life of 18 months, \$11,680 was assigned to customer relationships with hospitals with a useful life of 20 years, \$4,370 was assigned to customer relationships with extended care facilities with a useful life of 15 years and \$2,750 was assigned to ECIN 's sales backlog with a useful life of 54 months.



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The following unaudited pro forma information for Allscripts assumes the ECIN acquisition occurred on January 1, 2007. The unaudited pro forma supplemental results have been prepared based on estimates and assumptions, which we believe are reasonable and are not necessarily indicative of the consolidated financial position or results of income had the ECIN acquisition occurred on January 1, 2007, nor of future results of operations. The unaudited pro forma results for the three and six months ended June 30, 2008 and 2007 are as follows:

|                     | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|---------------------|--------------------------------|-----------|------------------------------|------------|
|                     | 2008                           | 2007      | 2008                         | 2007       |
| Total revenue       | \$ 81,512                      | \$ 74,280 | \$ 153,601                   | \$ 143,324 |
| Net income          | \$2,352                        | \$5,909   | \$2,432                      | \$9,998    |
| Earnings per share: |                                |           |                              |            |
| Basic               | \$0.04                         | \$0.11    | \$0.04                       | \$0.18     |
| Diluted             | \$0.04                         | \$0.09    | \$0.04                       | \$0.16     |

The unaudited pro forma information for the three and six months ended June 30, 2007 include the following adjustments:

Increase to amortization expense of \$547 and \$1,095 for the three and six months ended June 30, 2007 related to management's estimate of the fair value of intangible assets acquired as a result of the ECIN acquisition.

Decrease to interest income of \$286 and \$572 for the three and six months ended June 30, 2007 as a result of lower cash, cash equivalents and marketable securities balances assuming the acquisition of ECIN occurred on January 1, 2007.

Increase to interest expense of \$272 and \$544 for the three and six months ended June 30, 2007 as a result of assuming the \$50,000 of long-term debt incurred in connection with the ECIN acquisition was effective on January 1, 2007. This increase in interest expense is offset by a decrease in interest expense of \$597 and \$852 for the three and six months ended June 30, 2007 due to Allscripts paying the balance of ECIN's long-term debt in connection with the ECIN acquisition.

A decrease in revenue of \$255 and \$513 for the three and six months ended June 30, 2007 relating to the timing of deferred revenue purchase accounting adjustments.

The pro forma information includes a tax provision of \$359 and \$774 for the three and six months ended June 30, 2007 to reflect a 40% tax provision.

**Source Medical Solutions, Inc.**

On July 10, 2007, Allscripts entered into an asset purchase agreement to acquire a certain number of practice management customer contracts from SourceMedical Solutions, Inc. for approximately \$11,685. SourceMedical provides comprehensive outpatient information solutions and services for more than 3,500 ambulatory surgery centers, rehabilitation clinics and diagnostic imaging centers nationwide.

The purchase price of \$11,685 has been recorded as of June 30, 2008 and has been allocated to the tangible and intangible assets acquired and liabilities assumed based on management's best estimates of the current fair values. A total of approximately \$2,429 has been allocated to goodwill and \$8,846 has been allocated to intangible assets with the remaining value attributed to tangible assets. Of the \$8,846 intangible assets acquired, \$7,280 was assigned to customer relationships with a useful life of 20 years, \$1,260 was allocated to developed technology rights with an estimated useful life of 8 years and \$306 was assigned to transition services with a useful life of 1 year. The results of operations of SourceMedical have been included in the accompanying consolidated statements of operations from the date of the SourceMedical acquisition. The Source Medical acquisition has been accounted for as a business combination under Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. The assets acquired and liabilities assumed have been recorded at the date of acquisition at their respective fair values.



*A4 Health Systems, Inc*

During the three months ended June 30, 2008, Allscripts made an immaterial adjustment to the goodwill recorded for the A4 acquisition. Allscripts originally recorded a deferred tax asset for excess tax benefits relating to stock options exercised totaling approximately \$9,500. This deferred tax asset was realized during the first quarter of 2006 when the deferred tax asset valuation allowance was reversed to goodwill in purchase accounting for the A4 acquisition. The deferred tax asset relating to the excess tax benefits for stock option exercises should be recorded at the time that Allscripts is able to reduce its income taxes payable for the benefit but based on its current net operating loss carry-forward position was not able to reduce income taxes payable. As a result, a decrease in deferred tax assets totaling approximately \$9,500 with a corresponding offset to goodwill was recorded during the three months ended June 30, 2008.

**4. Stock-Based Compensation***Impact of the Adoption of SFAS 123(R)*

Allscripts elected to adopt the modified prospective application transition method as permitted by SFAS 123(R). Accordingly, during the three and six months ended June 30, 2008 and 2007, Allscripts recorded stock-based compensation cost in accordance with SFAS 123(R) as follows:

|                                  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|----------------------------------|--|-------------|--------------------------------------|-------------|
|                                  | <b>2008</b>                            | <b>2007</b> | <b>2008</b>                          | <b>2007</b> |
| Stock-based compensation:        |  |             |                                      |             |
| Restricted stock                 | \$1,604                                | \$578       | \$3,559                              | \$1,162     |
| Stock options                    | 9                                      | 45          | 13                                   | 117         |
| Total stock-based compensation   | \$1,613                                | \$623       | \$3,572                              | \$1,279     |
| Effect on net income, net of tax | \$984                                  | \$374       | \$2,179                              | \$767       |
| Effect on net income per share:  |  |             |                                      |             |
| Basic                            | \$0.02                                 | \$0.01      | \$0.04                               | \$0.01      |
| Diluted                          | \$0.02                                 | \$0.01      | \$0.04                               | \$0.01      |

**Table of Contents****Stock Options**

SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. As of June 30, 2008 and December 31, 2007, the unrecorded deferred stock-based compensation balance related to stock options was \$26 and \$39, respectively, after estimated forfeitures. Allscripts did not grant any stock options during the six months ended June 30, 2008 or 2007.

The following table summarizes the combined activity with respect to stock options granted under Allscripts equity incentive plans during the periods indicated:

|                              | Options<br>Outstanding | Weighted-<br>Average<br>Exercise Price | Options<br>Exercisable | Weighted-<br>Average<br>Exercise Price |
|------------------------------|------------------------|--|------------------------|--|
| Balance at December 31, 2006 | 5,532                  | \$7.81                                 | 5,485                  | \$7.80                                 |
| Options exercised            | (1,915)                | \$4.85                                 |                        |  |
| Options forfeited            | (62)                   | \$29.00                                |                        |  |
| Balance at December 31, 2007 | 3,555                  | \$9.02                                 | 3,550                  | \$9.02                                 |
| Options exercised            | (345)                  | \$3.80                                 |                        |  |
| Options forfeited            | (24)                   | \$22.73                                |                        |  |
| Balance at June 30, 2008     | 3,186                  | \$9.43                                 | 3,182                  | \$9.43                                 |

The aggregate intrinsic value of stock options outstanding as of June 30, 2008 was \$16,863, which is based on Allscripts closing stock price of \$12.41 as of June 30, 2008. The intrinsic value of stock options outstanding represents the amount that would have been received by the option holders had all option holders exercised their stock options as of that date. The total number of vested and exercisable stock options as of June 30, 2008 was 3,182, with an intrinsic value of \$16,863.

The total intrinsic value of stock options exercised during the six months ended June 30, 2008 was \$1,824. The total cash received from employees as a result of employee stock option exercises during the six months ended June 30, 2008 was \$1,312, net of related taxes. Allscripts settles employee stock option exercises with newly issued common shares.

**Restricted Stock Awards and Units**

During the six months ended June 30, 2008, management awarded 812 shares of restricted stock units to certain employees under the Amended and Restated 1993 Stock Incentive Plan, with a weighted average fair value of \$12.73 per share. The awards of restricted stock have an average four-year vesting term. Upon termination of an employee's employment with Allscripts, any unvested shares of restricted stock will be forfeited. As of June 30, 2008 and December 31, 2007, 2,077 and 1,266 restricted stock awards and units combined had been awarded, respectively, of which 1,539 and 937 were unvested. The fair value of the shares of unvested restricted stock on the date of the grant is amortized ratably over the vesting period. As of June 30, 2008 and December 31, 2007, \$17,770 and \$13,720, respectively, of unearned compensation related to unvested awards of restricted stock was netted against the balance of additional paid in capital and will be recognized over the remaining vesting terms of the awards.

Pursuant to restricted stock award agreements, the unvested restricted shares will vest upon the occurrence of a Change of Control. This Change of Control provision will be triggered upon consummation of the Misys transaction for all shares granted prior to the announcement of the transaction. Additionally, unvested restricted stock units granted prior to the announcement of the transaction and unvested stock options will vest on the business day prior to the consummation of the Misys transaction.

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The following table summarizes the status of unvested restricted stock outstanding at June 30, 2008 and changes during the six months then ended:

|  | Shares | Weighted Average<br>Grant Date Fair Value |
|--|--------|---|
| Unvested restricted stock at December 31, 2006 | 666    | \$18.18                                   |
| Awarded  | 525    | \$24.87                                   |
| Vested   | (158)  | \$18.23                                   |
| Forfeited                                      | (92)   | \$20.78                                   |
| Unvested restricted stock at December 31, 2007 | 941    | \$21.65                                   |
| Awarded  | 812    | \$12.73                                   |
| Vested   | (143)  | \$21.48                                   |
| Forfeited                                      | (64)   | \$21.64                                   |
| Unvested restricted stock at June 30, 2008     | 1,546  | \$16.98                                   |

**Employee Stock Purchase Plan**

The Employee Stock Purchase Plan ( ESPP ) became effective on July 1, 2006 and allows eligible employees to authorize payroll deductions of up to 20% of their base salary to be applied toward the purchase of full shares of common stock on the last day of the offering period. Offering periods under the ESPP are three months in duration and begin on each January 1, April 1, July 1, and October 1. Shares will be purchased on the last day of each offering period at a price of 95% of fair market value of the common stock on such date as reported on Nasdaq. The aggregate number of shares of Allscripts common stock that may be issued under the ESPP may not exceed 250 shares and no one employee may purchase any shares under the ESPP having a collective fair market value greater than \$25 in any one calendar year. The shares available for purchase under the ESPP may be drawn from either authorized but previously unissued shares of common stock or from reacquired shares of common stock, including shares purchased by Allscripts in the open market and held as treasury shares.

Allscripts treats the ESPP as a non-compensatory plan in accordance with SFAS No. 123(R). During the six months ended June 30, 2008 and 2007, 33 and 18 shares were issued under the ESPP which resulted in \$355 and \$470 in net proceeds, respectively.

**5. Cash, Cash Equivalents and Marketable Securities**

Cash and cash equivalent balances at June 30, 2008 and December 31, 2007 consist of cash and money market funds with original maturities at the time of purchase of less than 90 days. Allscripts' cash, cash equivalents, short-term marketable securities and long-term marketable securities are invested in overnight repurchase agreements, money market funds, U.S. and non-U.S. government debt securities, and corporate debt securities. The carrying values of cash and cash equivalents, short-term marketable securities and long-term marketable securities held by Allscripts are as follows:

|                                   | June 30,<br>2008 | December 31,<br>2007 |
|-----------------------------------|------------------|----------------------|
| Cash and cash equivalents:        |                  |                      |
| Cash                              | \$45,821         | \$43,017             |
| Money market funds                | 5,023            | 768                  |
|                                   | 50,844           | 43,785               |
| Short-term marketable securities: |                  |                      |
| Corporate debt securities         | 11,904           | 5,759                |
|                                   | 11,904           | 5,759                |

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|  |              |              |
|--|--------------|--------------|
| Long-term marketable securities:                           |              |              |
| U.S. government and agency debt obligations                | 2,350        | 2,724        |
| Corporate debt securities                                  | 957          | 10,735       |
|  | 3,307        | 13,459       |
| <br>Total cash, cash equivalents and marketable securities | <br>\$66,055 | <br>\$63,003 |

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS 157, *Fair Value Measurements* ( FAS 157 ). FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Under FAS 157, assets and liabilities are required to be recorded at fair value in the financial statements. The fair values are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in SFAS No. 157, are as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability.

Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

We adopted FAS 157 as required at the beginning of our fiscal year 2008 and the adoption did not have a material effect on our consolidated financial statements.

**Table of Contents****6. Comprehensive Income**

Comprehensive income includes all changes in stockholders' equity during a period except those resulting from investments by owners and distributions to owners.

The components of comprehensive income are as follows:

|   | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |          |
|---|--------------------------------|---------|------------------------------|----------|
|   | 2008                           | 2007    | 2008                         | 2007     |
| Net income  | \$2,352                        | \$6,028 | \$2,432                      | \$10,495 |
| Other comprehensive income:                                 |                                |         |                              |          |
| Unrealized gain (loss) on marketable securities, net of tax | (36)                           | 40      | (110)                        | 63       |
| Comprehensive income  | \$2,316                        | \$6,068 | \$2,322                      | \$10,558 |

The components of accumulated other comprehensive income (loss), net of income tax, consist of unrealized losses on Allscripts marketable securities. The components of the net unrealized loss on marketable securities, net of tax, are as follows:

|  | June 30,<br>2008 | December 31,<br>2007 |
|--|------------------|----------------------|
| Short-term marketable securities:                    |                  |                      |
| Gross unrealized gains                               | \$27             | \$                   |
| Gross unrealized losses                              | (26)             | (1)                  |
| Net short-term unrealized gains (losses)             | 1                | (1)                  |
| Long-term marketable securities:                     |                  |                      |
| Gross unrealized gains                               | 56               | 9                    |
| Gross unrealized losses                              | (256)            | (97)                 |
| Net long-term unrealized losses                      | (200)            | (88)                 |
| Total net unrealized losses on marketable securities | (\$199)          | (\$89)               |

**7. Net Income Per Share**

Allscripts accounts for net income per share in accordance with FAS No. 128, Earnings per Share (FAS 128). FAS 128 requires the presentation of basic income per share and diluted income per share. Basic income per share is computed by dividing the net income by the weighted-average shares of outstanding common stock. For purposes of calculating diluted earnings per share, the denominator includes both the weighted average shares of common stock outstanding and dilutive potential common stock equivalents. Dilutive common stock equivalent shares consist primarily of stock options, restricted stock awards and conversion of the Senior Convertible Debentures.

The components of net earnings available for diluted per-share calculation and diluted weighted average common shares outstanding are as follows:

|   | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|---|--------------------------------|------|------------------------------|------|
|   | 2008                           | 2007 | 2008                         | 2007 |
| Net earnings available for diluted per-share calculation: |                                |      |                              |      |

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|   |         |         |         |          |
|---|---------|---------|---------|----------|
| Net income  | \$2,352 | \$6,028 | \$2,432 | \$10,495 |
| Interest expense on 3.5% Senior Convertible Notes, net of tax |         | 523     |         | 1,046    |
| Net earnings available for diluted per-share calculation      | \$2,352 | \$6,551 | \$2,432 | \$11,541 |

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|  | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|--|--------------------------------|---------------|------------------------------|---------------|
|  | 2008                           | 2007          | 2008                         | 2007          |
| <b>Weighted average shares outstanding:</b>            |                                |               |                              |               |
| Basic weighted average common shares                   | 56,766                         | 55,648        | 56,635                       | 55,146        |
| Dilutive effect of options and restricted stock awards | 1,006                          | 1,825         | 935                          | 1,852         |
| Dilutive effect of 3.50% Senior Convertible Debentures |                                | 7,329         |                              | 7,329         |
| <b>Diluted weighted average common shares</b>          | <b>57,772</b>                  | <b>64,802</b> | <b>57,570</b>                | <b>64,327</b> |

Under the provisions of EITF 04-8, the as-if converted 7,329 shares and interest expense related to Allscripts' 3.5% Senior Convertible Debentures due 2024 were excluded from the three and six months ended June 30, 2008 as the effects were anti-dilutive.

**8. Investment in Promissory Note Receivable and Minority Interest**

On August 18, 2004, Allscripts entered into a Convertible Secured Promissory Note Purchase Agreement ( Note Purchase Agreement ) with Medem and certain other investors. Under the Note Purchase Agreement, Allscripts acquired a convertible secured promissory note in the aggregate principal amount of \$2,600 ( Promissory Note ) under which Medem borrowed \$2,600 from Allscripts. On May 28, 2007, Allscripts converted the Promissory Note into 2,317 shares of Medem's Series A Common Stock.

In connection with the Note Purchase Agreement described above, Allscripts also entered into a Share Purchase Agreement pursuant to which Allscripts purchased shares of Medem's Series A Common Stock, shares of Medem's Series B Common Stock, and a three-year option to acquire an additional interest in Medem, all for an aggregate purchase price equal to \$500 in cash (the Share Purchase Agreement ). Pursuant to such three-year option in the Share Purchase Agreement Allscripts had the right to purchase an additional (i) 118 shares of Series A Common Stock, par value of \$0.001 per share, of Medem, and (ii) 1,061 shares of Series B Common Stock, par value of \$0.001 per share, of Medem for an exercise price of \$600.

On May 28, 2007, Allscripts entered into an Option Purchase Agreement (the Option Agreement ) with Medem. Pursuant to the Option Agreement, Allscripts sold to Medem the irrevocable three-year option held by Allscripts for a total purchase price of \$2,592. The fair value of the three-year option was estimated at approximately \$200 at the time of investment on August 18, 2004 and the sale of the option resulted in a gain of approximately \$2,392.

As of June 30, 2008, Allscripts owns 2,338 shares, or 18.7%, of Medem's Series A Voting Common Stock and 91 shares, or 4.6%, of Medem's Series B Common Stock (combined 16.8% equity ownership). Allscripts' total investment in Medem is \$2,900 under the cost basis of accounting as of June 30, 2008 and December 31, 2007 and is recorded in other assets on the consolidated balance sheets.

**9. Long-Term Debt and Bank Credit Facility**

In July 2004, Allscripts completed a private placement of \$82,500 of 3.50% Senior Convertible Debentures due 2024 ( Notes ). The Notes can be converted, in certain circumstances, into approximately 7,300 shares of common stock based upon a conversion price of approximately \$11.26 per share, subject to adjustment for certain events.

The Notes are only convertible under certain circumstances, including: (i) during any fiscal quarter if the closing price of Allscripts' common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the preceding fiscal quarter exceeds \$14.64 per share; (ii) if Allscripts calls the Notes for redemption; or (iii) upon the occurrence of certain specified corporate transactions, as defined. Allscripts has the right to deliver common stock, cash or a combination of cash and shares of common stock. The Notes were convertible during the quarter ended June 30, 2007 by virtue of the last reported sale price for Allscripts' common stock having exceeded \$14.64 for twenty consecutive days in the 30 trading-day period ending on each fiscal quarter end date but were not convertible during the quarter ended June 30, 2008. No notes were converted as of June 30, 2008 or June 30, 2007. The timing of our obligation on the Notes may change as it relates to funding interest payments and making a principal payment on the Notes based on whether the holders elect to convert the Notes. Upon conversion, Allscripts may redeem some or all of the Notes for cash any time on or after July 20, 2009 at the Notes' full principal amount plus accrued and unpaid interest, if any. Holders of the Notes may require Allscripts to repurchase some or all of the Notes on July 15, 2009, 2014 and 2019 or, subject to certain exceptions, upon a change of control of Allscripts.





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On December 31, 2007, Allscripts and its subsidiaries entered into a new credit agreement the ( Credit Facility ) with JPMorgan Chase Bank, N.A., as sole administrative agent, which provides for a total unsecured commitment of \$60,000 and matures on January 1, 2012. The Credit Facility is available in the form of letters of credit and revolving loans. As of June 30, 2008 and December 31, 2007, \$50,000 in borrowings were outstanding and \$0 in letters of credit were outstanding under the Credit Facility. The proceeds received by Allscripts under the Credit Facility were used to partially finance the acquisition of ECIN described in Note 3. The Credit Facility contains customary representations, warranties, covenants and events of default. The Credit Facility also contains certain financial covenants, including but not limited to, leverage and coverage ratios to be calculated on a quarterly basis. The interest rate for the Credit Facility will initially bear interest at LIBOR plus 0.80% and thereafter will be based upon Allscripts' leverage ratio as of the last day of the most recently ended fiscal quarter or fiscal year, commencing with the date of delivery of Allscripts' financial statements for the fiscal quarter ending June 30, 2008, pursuant to the terms of the Credit Facility.

Allscripts received approximately \$49,906 in net proceeds under the Credit Facility after deduction for debt issuance costs. The debt costs of \$94 have been capitalized other assets and are being amortized as interest expense over four years using the effective interest method.

In connection with the acquisition of A4, Allscripts assumed a secured promissory note with an aggregate principal amount of \$3,400 as of March 2, 2006, maturing on October 31, 2015. The promissory note bears interest at 7.85% per annum, and principal and interest are due monthly. In the event of prepayment in full or in part, Allscripts will be subject to a prepayment fee of 1% or more, as described in the related promissory note agreement, of the amount of principal prepaid on the promissory note. The promissory note is secured by the former corporate facilities of A4 and any lease or rental payments as defined in the related agreements.

Long-term debt outstanding as of June 30, 2008 and December 31, 2007 consists of the following:

|  | June 30,<br>2008 | December 31,<br>2007 |
|--|------------------|----------------------|
| 3.5% Senior convertible debt                                   | \$82,500         | \$82,500             |
| Long-term revolving Credit Facility, LIBOR plus 0.80% interest | 50,000           | 50,000               |
| 7.85% Secured promissory note                                  | 2,804            | 2,941                |
| Total debt   | 135,304          | 135,441              |
| Less: Current portion of long-term debt                        | 290              | 279                  |
| Total long-term debt, net of current portion                   | \$135,014        | \$135,162            |

Interest expense for the three months ended June 30, 2008 and 2007 was \$1,234 and \$782, respectively, and \$149 in debt issuance cost amortization for both periods. Interest expense for the six months ended June 30, 2008 and 2007 was \$2,731 and \$1,567, respectively, and \$296 in debt issuance cost amortization for both periods.

**10. Income Taxes**

Allscripts adopted FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of FIN 48, we recorded an approximate \$273 increase in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of goodwill in relation to the A4 acquisition on March 2, 2006. As of January 1, 2007, the gross amount of unrecognized tax benefits was \$6,400 of which \$6,400 was recorded as a reduction to certain tax carryovers. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$4,600. All remaining amounts would be adjustments to goodwill.

Allscripts recognized accrued interest and penalties related to unrecognized tax benefits in income tax expense and has also accrued amounts as adjustments to goodwill. It is unlikely that the balance of the unrecognized tax benefits will change in any material amount in the next 12 months.

Allscripts and its subsidiaries file income tax returns in the U.S. federal jurisdiction and with various state jurisdictions. Tax years 1993 and forward remain open for examination for federal tax purposes. To the extent utilized in future years' tax returns, net operating loss carryforwards at June 30, 2008 will remain subject to examination until the respective tax year is closed. The statute is similarly open for state income tax purposes.



**Table of Contents****11. Business Segments**

FAS No. 131, Disclosures about Segments of a Business Enterprise and Related Information, establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Allscripts currently organizes its business around groups of similar products, which results in three reportable segments: software and related services; prepackaged medications; and information services. The software and related services segment derives its revenue from the sale and installation of clinical software that provides point-of-care decision support solutions, document imaging solutions, and the resale of related hardware. The prepackaged medications segment derives its revenue from the repackaging, sale, and distribution of medications and medical supplies. The information services segment primarily derives its revenue from the sale of interactive physician education sessions. Allscripts does not report its assets by segment. Allscripts does not allocate interest income, interest expense, other income or income taxes to its operating segments. In addition, Allscripts records corporate selling, general, and administration expenses, amortization of intangibles, restructuring and other related charges in its unallocated corporate costs. These costs are not included in the evaluation of the financial performance of Allscripts operating segments.

|  | For the Three Months<br>Ended June 30, |                 | For the Six Months<br>Ended June 30, |                  |
|--|--|-----------------|--------------------------------------|------------------|
|  | 2008                                   | 2007            | 2008                                 | 2007             |
| <b>Revenue:</b>  |  |                 |                                      |                  |
| Software and related services                                      | \$68,179                               | \$54,681        | \$126,797                            | \$105,921        |
| Prepackaged medications  | 9,493                                  | 10,939          | 19,088                               | 21,168           |
| Information services   | 3,840                                  | 4,421           | 7,716                                | 7,974            |
| <b>Total revenue</b>   | <b>\$81,512</b>                        | <b>\$70,041</b> | <b>\$153,601</b>                     | <b>\$135,063</b> |
| <b>Income from operations:</b>                                     |  |                 |                                      |                  |
| Software and related services                                      | \$19,950                               | \$16,914        | \$34,574                             | \$31,125         |
| Prepackaged medications  | 919                                    | 950             | 2,141                                | 2,179            |
| Information services   | 259                                    | 596             | 608                                  | 1,055            |
| Unallocated corporate  | (16,267)                               | (10,990)        | (31,253)                             | (19,566)         |
| <b>Income from operations</b>                                      | <b>4,861</b>                           | <b>7,470</b>    | <b>6,070</b>                         | <b>14,793</b>    |
| Interest income, interest expense, and other income (expense), net | (1,006)                                | 176             | (2,085)                              | 280              |
| Gain on sale of equity investment                                  |  | 2,392           |                                      | 2,392            |
| <b>Income from operations before income taxes</b>                  | <b>\$3,855</b>                         | <b>\$10,038</b> | <b>\$3,985</b>                       | <b>\$17,465</b>  |

**12. Subsequent Event**

On August 6, 2008, Allscripts entered into a commitment letter with JPMorgan Chase Bank, N.A. in order to set forth terms regarding an amendment and restatement of its existing revolving credit facility. The amended credit facility would (i) increase the aggregate principal amount available thereunder from \$60,000 to \$75,000 and (ii) provide a backstop facility of up to \$50,000 to be used to fund any repurchases of Allscripts 3.50% Convertible Senior Debentures arising by reason of the transactions with Misys plc ( Misys ). The amended credit facility will contain usual and customary representations, warranties and covenants for transactions of this type. The amended credit facility is subject to customary closing conditions.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Overview**

Allscripts Healthcare Solutions, Inc. is a leading provider of clinical software, connectivity and information solutions that physicians use to improve the quality of healthcare. Our businesses provide innovative solutions that inform physicians with just right, just in time information, connect physicians to each other and to the entire community of care, and transform healthcare, improving both the quality and efficiency of care. We provide clinical software applications, including Electronic Health Record (EHR), practice management, electronic prescribing, Emergency Department Information System (EDIS), hospital care management and document imaging solutions through our clinical solutions businesses. Additionally, we provide clinical education and information solutions for physicians and patients through our physicians interactive business unit, along with physician-patient connectivity solutions through our partnership with Medem. We also provide prepackaged medication fulfillment services through our medication services business unit.

We report our financial results utilizing three business segments: software and related services segment; information services segment; and prepackaged medications segment. The software and related services segment consists of clinical software solutions offered by our clinical solutions and hospital solutions businesses, such as HealthMatics, TouchWorks, TouchScript, Canopy, EmStat, Healthmatics ED and ECIN offerings. TouchWorks Electronic Health Record is an award-winning EHR solution designed to enhance physician productivity using Tablet PCs, wireless handheld devices or desktop workstations for the purpose of automating the most common physician activities, including prescribing, dictating, ordering lab tests and viewing results, documenting clinical encounters and capturing charges, among others. TouchWorks Practice Management combines scheduling and financial management tools in a single package with functionality including rules-based appointment scheduling, multi-resource and recurring appointment features, referral and eligibility indicators, and appointment and claims management. TouchWorks EHR and TouchWorks PM, which are both offered individually and as a combined solution, have the functionality to handle the complexities of large physician practice groups with 25 or more physicians.

For physician practice groups with fewer than 25 physicians that are seeking an EHR, a practice management system, or a combined EHR and practice management solution, we offer our HealthMatics EHR, Ntierprise Practice Management and HealthMatics Office, which combines the two offerings into one complete solution for clinical and back-office automation.

TouchScript is an e-prescribing solution that physicians can access via the Internet to quickly, safely and securely prescribe medications, check for drug interactions, access medication histories, review drug reference information, and send prescriptions directly to a pharmacy or mail order facility. TouchScript can be a starting point for medical groups to seamlessly transition over time to a complete EHR. Another e-prescribing offering, eRx NOW, is an easy-to-use, web-based solution that is safe, secure, requires no downloading and no new hardware. eRx NOW is accessible by Internet on computers, handheld devices and cell phones and is offered free of charge to every prescriber in America via the National ePrescribing Patient Safety Initiative, a collaborative initiative introduced and led by us to enhance patient safety and reduce preventable medication errors.

Our offerings for hospitals that are seeking EDIS and care management solutions include HealthMatics ED, EmSTAT and Canopy. HealthMatics ED electronically streamlines processes for large hospital Emergency Departments, including tracking, triage, nurse and physician charting, disposition and reporting. EmSTAT offers similar functionality for streamlining the Emergency Department care process in small hospitals. Canopy is a Web-based solution that streamlines and speeds the patient care management process by automating utilization, case, discharge and quality management processes relating to patient hospital visits. On December 31, 2007, we acquired Extended Care Information Network, Inc. ( ECIN ), a provider of hospital care management and discharge planning software. ECIN's web-based solutions include Utilization Management, Discharge Planning and Case Management systems that assist hospitals in streamlining case management workflow, increasing productivity, improving patient throughput and reducing length of stay.

In our information services segment, our key product offerings are Physicians Interactive and Physician Relationship Management Platform ( PRMP ). Physicians Interactive is a web-based solution that connects physicians with pharmaceutical companies, medical device manufacturers and biotech companies. One element of this solution, often referred to as e-Detailing, uses interactive sessions to provide clinical education and information to physicians about medical products and disease states, which promotes more informed decision-making, increased efficiency and ultimately higher quality patient care. Other elements of the Physicians Interactive offerings include e-surveys, clinical updates, resource centers, key opinion leader materials and other physician relationship management services. PRMP provides pharmaceutical companies with a turnkey system to build an electronic dialogue and manage ongoing relationships with physicians. The PRMP incorporates a full suite of online tools, including campaign management, physician communication and education and sample and rep requests, as well as e-Detailing opportunities.

Finally, our prepackaged medications segment is comprised of our medication services business unit. This business unit provides point-of-care medication management and medical supply services and solutions for physicians and other healthcare providers.



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The composition of our revenue by segment for the three-month periods ended on the dates indicated below is as follows:

|                               | 2008     |          |          | 2007     |          |          |
|-------------------------------|----------|----------|----------|----------|----------|----------|
|                               | June 30  | March 31 | Dec. 31  | Sept. 30 | June 30  | March 31 |
| Software and related services | \$68,179 | \$58,618 | \$57,767 | \$58,985 | \$54,681 | \$51,240 |
| Prepackaged medications       | 9,493    | 9,595    | 11,887   | 10,904   | 10,939   | 10,229   |
| Information services          | 3,840    | 3,876    | 3,747    | 3,555    | 4,421    | 3,553    |
| Total revenue                 | \$81,512 | \$72,089 | \$73,401 | \$73,444 | \$70,041 | \$65,022 |

Cost of revenue for the software and related services segment consists primarily of salaries, bonuses and benefits of our billable professionals, third-party software costs, hardware costs, capitalized software amortization and other direct engagement costs. Cost of revenue for the prepackaged medications segment consists primarily of the cost of the medications, cost of salaries, bonuses and benefits for repackaging personnel, shipping costs, repackaging facility costs and other costs. Cost of revenue for the information services segment consists primarily of salaries, bonuses and benefits of our program management and program development personnel, third-party program development costs, costs to recruit physicians and other program management costs.

Selling, general and administrative expenses consist primarily of salaries, bonuses and benefits for management and support personnel, commissions, facilities costs, depreciation and amortization, general operating expenses, non-capitalizable product development expenses and selling and marketing expenses. Selling, general and administrative expenses for each segment consist of expenses directly related to that segment.

**Merger Agreement**

On March 17, 2008, Allscripts entered into an Agreement and Plan of Merger (the *Merger Agreement*) with Misys plc ( *Misys* ), a public limited company incorporated under the laws of England and Wales, Misys Healthcare Systems, LLC ( *MHS* ), a North Carolina limited liability company and wholly-owned indirect subsidiary of Misys and Patriot Merger Company, LLC, a North Carolina limited liability company and wholly-owned subsidiary of Allscripts ( *Patriot* ).

The Merger Agreement provides for (i) the purchase by Misys or its affiliated designee of \$330,000 ( the *Share Purchase* ) and (ii) the merger of Patriot with and into MHS, with MHS being the surviving company (the *Merger* and together with the Share Purchase, the *Transactions* ). At the effective time of, and as a result of the Merger, each issued and outstanding limited liability company interest of MHS shall be cancelled and converted into the right to receive that number of newly issued shares of Allscripts common stock that, together with the shares of Allscripts common stock to be purchased by Misys or its affiliated designee in the Share Purchase, shall equal 54.5% of the aggregate number of Allscripts fully-diluted shares. Pursuant to the Merger Agreement, Allscripts will declare and pay a special cash dividend of \$330,000, in the aggregate, to holders of Allscripts common stock as of the close of business on the business day immediately prior to the date on which the Merger is consummated.

**Recent Accounting Pronouncements**

In June 2008, the Financial Accounting Standards Board issued EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( EITF 03-6-1 ). EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities as defined in EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*, and therefore should be included in computing earnings per share using the two-class method. According to EITF 03-6-1, a share-based payment award is a participating security when the award includes nonforfeitable rights to dividends or dividend equivalents. The EITF is effective for fiscal years beginning after December 15, 2008. The Company has not historically declared dividends and although the Company is declaring a special dividend in connection with the Misys transaction, we do not intend to declare dividends in the future and therefore does not expect EITF 03-6-1 will have an effect on its consolidated financial position or results of operations.

In June 2008, the Financial Accounting Standards Board issued EITF Issue No. 08-4, *Transition Guidance for Conforming Changes to Issue No. 98-5* ( EITF No. 08-4 ). The objective of EITF No. 08-4 is to provide transition guidance for conforming changes made to EITF No. 98-5,

*Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, that result from EITF No. 00-27 *Application of Issue No. 98-5 to Certain Convertible Instruments*, and SFAS No. 150, *Accounting for Certain Financial Instruments*

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with Characteristics of both Liabilities and Equity . This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008, with early application permitted. Management is currently evaluating the impact of adoption of EITF No. 08-4 on the accounting for the convertible debt.

In May 2008, the Financial Accounting Standard Board issued FASB Staff Position (FSP) No. APB 14-1 *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ( APB 14-1 ). This FSP specifies that issuers of convertible debt instruments should separately account for the liability and equity components of the instrument in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, does not grandfather existing instruments, will not permit early application and will require retrospective application to all periods presented. Management is currently in the process of quantifying the impact of the FSP on our consolidated financial position and results of operations.

In December 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ( FAS 141R ). FAS 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the fair value of identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date. FAS 141R determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS No. 141R is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of adopting FAS 141R on our consolidated results of operations and financial condition and plan to adopt it as required in the first quarter of fiscal 2009.

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In December 2007, the Financial Accounting Standards Board issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* ( FAS 160 ), an amendment of Accounting Research Bulletin No. 51, *Consolidated Financial Statements* ( ARB 51 ). FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the Parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. This pronouncement is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of adopting FAS 160 on our consolidated results of operations and financial condition and plan to adopt it as required in the first quarter of fiscal 2009.

In February 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, ( FAS 159 ). FAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under an instrument-by-instrument election. Most of the provisions in FAS 159 are elective; however, it applies to all companies with available-for-sale and trading securities. A company will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. FAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts FAS 157. We adopted FAS 159 as required at the beginning of our fiscal year 2008 and the adoption did not have a material effect on our consolidated financial statements.

***Three and Six Months Ended June 30, 2008 Compared to Three and Six Months Ended June 30, 2007******Software and Related Services***

Software and related services revenue for the three months ended June 30, 2008 increased \$13,498, or 24.7%, from \$54,681 during the three months ended June 30, 2007 to \$68,179 during the same period in 2008. Software and related services revenue for the six months ended June 30, 2008 increased \$20,876, or 19.7%, from \$105,921 during the six months ended June 30, 2007 to \$126,797 during the same period in 2008. The quarterly increase is attributable to an increase in software revenue of approximately \$6,200 for revenue contributed by ECIN, which we acquired on December 31, 2007, an increase of approximately \$5,200 in sales to smaller physician practices and emergency department customers, an increase of approximately \$1,700 in support and maintenance revenue due to the increase in our installed customer base, an increase of approximately \$2,500 in software and implementation services revenue accounted for under percentage of completion and other related services. These increases were partially offset by a decrease in add-on license revenue of approximately \$2,200. The six month increase is due to approximately \$11,600 contributed by ECIN which was absent in 2007, an increase of \$7,700 in sales to smaller physician practices and emergency department customers and an increase of approximately \$3,200 in support and maintenance revenue, partially offset by a decrease in add-on license revenue of approximately \$2,600.

Gross profit for software and related services increased \$6,328, or 19.8%, from \$31,884 during the second quarter of 2007 to \$38,212 in the same period of 2008. Gross profit also increased \$10,169, or 16.7%, from \$60,742 in the first half of 2007 to \$70,911 in the first half of 2008. The increase in gross profit for both periods is primarily a result of an increase in support and maintenance revenue which is traditionally higher-margin relative to other revenue streams and due to the ECIN margin contribution for the three and six month periods ended June 30, 2008 which were not present in 2007. Gross profit for software and related services as a percentage of revenue decreased from 58.3% during the second quarter of 2007 to 56.0% in the second quarter of 2008. Gross profit for software and related services as a percentage of revenue decreased from 57.3% during the first half of 2007 to 55.9% in the first half of 2008. The gross profit as a percentage of revenue for both periods was negatively affected by the incremental deployment cost associated with our TouchWorks version 11.0 software.

Operating expenses for software and related services for the second quarter ended June 30, 2008 increased \$3,292 from \$14,970 in the second quarter of 2007 to \$18,262 in the same period of 2008. Operating expenses for software and related services for the six months ended June 30, 2008 increased \$6,720 from \$29,617 in the first six months of 2007 to \$36,337 in the same period of 2008. The net increase in operating expenses during the second quarter of 2008 compared to the same period in 2007 is primarily the result



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of an increase in compensation-related costs of approximately \$2,800 due to increased headcount resulting from the growth of the business, the addition of ECIN employees and an increase in bonus expense as well as an increase in bad debt of approximately \$1,500, partially offset by a decrease of approximately \$700 in consulting and marketing costs combined. The six month increase in operating expenses is primarily due to an increase in compensation-related expenses of approximately \$5,700 attributable to an increase in headcount, an increase of approximately \$1,800 in bad debt expense and an increase in travel expenses of approximately \$600. The six month increase is partially offset by a decrease in third party consultant expense of approximately \$1,200.

We had capitalized software costs of \$7,305 during the first half of 2008 and \$6,740 for the same period in 2007, which was capitalized pursuant to Statement of Financial Accounting Standard SFAS No. 86, Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed in our software and related services segment. The increase in capitalized software of \$565 is primarily due to the addition of capitalized software related to our A4 and ECIN businesses, which were absent in the same period of 2007.

*Prepackaged Medications*

Prepackaged medications revenue for the three months ended June 30, 2008 decreased \$1,446, from \$10,939 in 2007 to \$9,493 in the same period of 2008. Prepackaged medications revenue for the six months ended June 30, 2008 decreased \$2,080, from \$21,168 in 2007 to \$19,088 in the same period of 2008. The decrease is primarily due to an overall decrease in average selling prices for medications due to increased competitive factors, management's focus on reducing lower-margin revenue from wholesaler customers, and due to a decrease in medication orders as a result of increased order monitoring and related restrictions experienced in 2008. Approximately \$950 of the year-over-year decrease was due to the reduction in medication prices and the effect of increased order monitoring and the remaining decrease of approximately \$500 is due to a reduction in wholesaler revenue during the second quarter of 2008 in comparison to the same period in 2007. Of the six month decrease, approximately \$950 was attributed to the reduction in medication prices and the effect of increased order monitoring and approximately \$1,100 was due to a reduction in wholesaler revenue in the six months ended June 30, 2008 when compared to the same period in 2007.

Gross profit for prepackaged medications for the three months ended June 30, 2008 decreased \$153, or 8.5%, from \$1,798 in the second quarter of 2007 to \$1,645 in the same period of 2008. Gross profit for prepackaged medications for the six months ended June 30, 2008 decreased \$92, from \$3,719 in the first half of 2007 to \$3,627 in the same period of 2008. Gross profit as a percentage of revenue increased from 16.4% in the second quarter of 2007 to 17.3% in the same period of 2008. Gross profit as a percentage of revenue increased from 17.6% in the first half of 2007 to 19.0% in the same period of 2008. The increase in gross profit as a percentage of revenue for both periods is primarily due to the reduction in lower-margin revenue from wholesaler customers experienced in the first six months of 2008.

Operating expenses for prepackaged medications for the quarter ended June 30, 2008 decreased by \$122, from \$848 in 2007 to \$726 in 2008. Operating expenses for prepackaged medications for the first half of the year decreased \$54, from \$1,540 in 2007 to \$1,486 in 2008. The second quarter decrease is primarily due to a decrease in bad debt expense of approximately \$80 and a decrease in consulting expense of approximately \$50. The six month decrease is due to a decrease in bad debt expense of approximately \$125 and a decrease in consulting expense of \$50, offset by an increase in compensation expense of \$150.

*Information Services*

Information services revenue for the three months ended June 30, 2008 decreased \$581, or 13.1%, from \$4,421 in the second quarter of 2007 to \$3,840 in the same period of 2008. Information services revenue for the six months ended June 30, 2008 decreased \$258, or 3.2%, from \$7,974 in the first half of 2007 to \$7,716 in the same period of 2008. The decrease for both periods is primarily attributed to the decrease of revenue related to the development and hosting of several PRMP solutions of approximately \$500 and \$200 during the second quarter of 2008 and first half of 2008, respectively.

Gross profit for information services for the quarter ended June 30, 2008 decreased \$496, or 27.7%, from \$1,789 in the second quarter of 2007 to \$1,293 in the same period in 2008. During the first half of 2008, gross profit for information services decreased \$630, or 19.2%, from \$3,283 in the first half of 2007 to \$2,653 in the same period in 2008. Gross profit as a percentage of revenue decreased from 40.5% in the second quarter of 2007 to 33.7% in the same period in 2008. Gross profit as a percentage of revenue decreased from 41.2% in the first half of 2007 to 34.4% in the same period in 2008. The decrease in gross profit and gross profit as a percentage of revenue for both periods is primarily due to an increase in headcount and a decrease in revenue accounted for under percentage of completion for the hosted PRMP solutions.

Operating expenses for information services for the three months ended June 30, 2008 decreased \$159, or 13.3%, from \$1,193 in the second quarter of 2007 to \$1,034 in the same period in 2008. Operating expenses for information services for the six months ended June 30, 2008 decreased \$183, or 8.2%, from \$2,228 in the first half of 2007 to \$2,045 in the same period in 2008. The decrease for both periods is due to a decrease in compensation-related expenses attributed to a decrease in headcount of approximately \$170 and \$270 in the second quarter of 2008

and the first half of 2008, respectively.

*Unallocated Corporate Expenses*

Unallocated corporate expenses for the three months ended June 30, 2008 increased by \$5,277 from \$10,990 in the second quarter of 2007 to \$16,267 in the same period in 2008. Unallocated corporate expenses for the six months ended June 30, 2008 increased by \$11,687 from \$19,566 in the first half of 2007 to \$31,253 in the same period in 2008. Excluding approximately \$3,004 in acquisition related expenses relating to the transactions contemplated by the Merger Agreement with Misys plc and other

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integration related expenses, unallocated corporate expenses for the second quarter of 2008 increased by \$2,273. This increase primarily relates to an increase in compensation related costs of \$600 resulting from an increase in headcount and the ECIN acquisition, an increase in deal related amortization of \$860 relating to the ECIN acquisition, and due to a reduction of \$300 in corporate internally developed software capitalized. The balance of the three month increase is due to other immaterial changes. The increase for the six months ended June 30, 2008 is largely attributable to Misys transaction and other integration related expenses totaling \$5,666. The remaining increase of \$6,021 is due to an increase in compensation-related expenses of \$2,100, an additional \$1,700 of intangible amortization related to the ECIN acquisition, an increase of approximately \$500 in facilities expenses, and due to a reduction of \$300 in corporate internally developed software capitalized. The balance of the six month increase is due to other immaterial changes.

*Interest Income and Interest Expense*

Interest and other income recognized during the second quarter of 2008 decreased \$729, or 65.9%, from \$1,106 in the second quarter of 2007 to \$377 in the comparable period in 2008. Interest and other income recognized during the first half of 2008 decreased \$1,201, or 56.0%, from \$2,143 in the first half of 2007 to \$942 in the comparable period in 2008. The decrease in interest income for both periods is attributed to the net cash of \$37,802 used for the purchase of ECIN as of December 31, 2007, which represents total net cash used of \$87,802 less \$50,000 borrowed under the Credit Facility and due to a decrease in effective interest rates for each comparable period.

Interest expense recognized during the three months ended June 30, 2008 increased \$453, from \$930 in the second quarter of 2007 to \$1,383 in the same period in 2008. Interest expense recognized during the first six months of 2008 increased \$1,164, from \$1,863 in the first half of 2007 to \$3,027 in the same period in 2008. The increase in interest expense is due to the new Credit Facility we entered into on December 31, 2007 which provides for a total unsecured commitment of \$60,000 and matures on January 1, 2012. As of June 30, 2008, \$50,000 in borrowings were outstanding under the Credit Facility and the net proceeds received were used towards the net cash purchase price of \$87,802 related to the purchase of ECIN as of December 31, 2007.

*Gain on sale of equity investment*

During the second quarter of 2007 we entered into an Option Purchase Agreement with Medem and agreed to sell to Medem for a total purchase price of \$2,592 an irrevocable three-year option held by Allscripts to purchase additional shares of Medem's common stock. The sale of the option resulted in a gain of approximately \$2,392 and is recorded in our operating results for the three and six months ended June 30, 2007.

*Income taxes*

Tax provisions of \$1,503 and \$4,010 were recorded for the three months ended June 30, 2008 and 2007, respectively and \$1,553 and \$6,970 for the six months ended June 30, 2008 and 2007, respectively.

**Liquidity and Capital Resources**

At June 30, 2008 and December 31, 2007, our principal sources of liquidity consisted of cash, cash equivalents and marketable securities of \$66,055 and \$63,003, respectively. The increase of \$3,052 is reflective of the following:

*Operating activities*

For the six months ended June 30, 2008, we generated \$22,358 in net cash provided by operations, compared to \$6,916 in the same period of 2007. This net improvement of \$15,442 is due primarily to an improvement in accounts receivable management which improved by approximately \$9,900 for the first half of 2008 due to management's focus on cash collections and also due to a reduction in payments related to prepaid expenses of approximately \$5,900 during the first half of 2008 compared to the same period in 2007. During the first half of 2007 we prepaid \$1,700 for third-party software development, prepaid commissions of approximately \$2,200 and other miscellaneous prepayments that were all absent in the same period in 2008. In addition, we received a refund of approximately \$600 during the first half of 2008 relating to prepaid marketing services from prior years. These operating cash flow improvements were partially offset by a decrease of approximately \$650 in accounts payable and accrued costs due to the timing of vendor and employee payments.

*Investing activities*

During the first half of 2008, we used \$5,657 of cash for capital expenditures and \$6,170 for capitalized software development costs. In addition, we made additional ECIN acquisition payments of \$9,024 during the first six months of 2008. We used \$5,104 and \$8,035 in the six months ended June 30, 2007 to fund capital expenditures and capitalized software costs, respectively.

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### *Financing activities*

During the six months ended June 30, 2008, we received \$1,667 in proceeds from the exercise of stock options and purchases of stock under our employee stock purchase plan, compared to the receipt of \$7,923 during the same period in 2007.

Allscripts' working capital increased by \$13,037 or 17.4%, for the six months ended June 30, 2008, from \$75,067 at December 31, 2007 to \$88,104 at June 30, 2008. The increase is primarily due to an increase in cash and short-term marketable securities of \$13,204 resulting primarily from cash generated from operations and the maturities of long-term securities, an increase in net accounts receivable of \$2,496 and an increase in inventories of \$1,195 attributed to an increase in purchases of hardware to be resold to customers during the first six months of 2008. At June 30, 2008, we had an accumulated deficit of \$510,810, compared to \$513,242 at December 31, 2007.

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### **Future Capital Requirements**

On August 6, 2008, Allscripts entered into a commitment letter with JPMorgan Chase Bank, N.A. in order to set forth terms regarding an amendment and restatement of its existing revolving credit facility. The amended credit facility would (i) increase the aggregate principal amount available thereunder from \$60,000 to \$75,000 and (ii) provide a backstop facility of up to \$50,000 to be used to fund any repurchases of Allscripts 3.50% Convertible Senior Debentures arising by reason of the transactions with Misys plc ( Misys ). The amended credit facility will contain usual and customary representations, warranties and covenants for transactions of this type. The amended credit facility is subject to customary closing conditions.

We believe that our cash, cash equivalents and marketable securities of \$66,055 as of June 30, 2008 and our cash flow from operations will be sufficient to meet the anticipated cash needs of our business for the next twelve months. Our primary needs for cash over the next twelve months will be to fund working capital, service approximately \$4,925 in interest payments on our debt instruments, pay acquisition expenses related to the Transactions with Misys plc, fund capital expenditures, contractual obligations and investment needs of our current business.

We cannot provide assurance that our actual cash requirements will not be greater than we expect as of the date of this report. We will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services and technologies, which might impact our liquidity requirements or cause us to issue additional equity or debt securities.

If sources of liquidity are not available or if we cannot generate sufficient cash flow from operations during the next twelve months, we might be required to obtain additional sources of funds through additional operating improvements, capital market transactions, asset sales or financing from third parties, a combination thereof or otherwise. We cannot provide assurance that these additional sources of funds will be available or, if available, would have reasonable terms.

### **Off Balance Sheet Arrangements**

In connection with the corporate facilities lease agreement, Allscripts has provided to the lessor an unconditional irrevocable letter of credit in favor of the lessor in the amount of \$500 as security for the full and prompt performance by Allscripts under the lease agreement. The letter of credit may be drawn upon by the lessor and retained, used or applied by lessor for the purpose of curing any monetary default or defaults of Allscripts under the lease. The letter of credit provides for an expiration date of one year from the commencement date of the lease, and will automatically extend for additional successive one-year periods through the term of the lease. As of June 30, 2008 and 2007, no amounts had been drawn on the letter of credit.

In connection with our acquisition of ECIN, we assumed a \$200 irrevocable letter of credit with a lending institution. A security deposit in the form of a letter of credit is specified in ECIN's Chicago office lease agreement. The letter of credit contains an automatic renewal provision that requires notice of non-renewal to the beneficiary no later than 60 days prior to the current expiration date. The letter of credit expires on June 30, 2009. Under the ECIN Chicago office lease agreement, we have the right to reduce the letter of credit over time to \$75 on November 1, 2008 and to \$50 on November 1, 2009. As of June 30, 2008, no amounts had been drawn on the letter of credit.

We have other letters of credit as security for full and prompt performance under various contractual arrangements totaling \$375. As of June 30, 2008 and 2007, no amounts had been drawn on the letter of credit.

### **CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include all statements other than those made solely with respect to historical fact. Forward-looking statements may be identified by words such as believes, expects, anticipates, estimates, projects, intends, should, seeks, future, continue, or the negative of such terms, or other comparable terminology. Forward-looking statements are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are based on our beliefs as well as assumptions made by and information currently available to us. Such forward-looking statements are subject to numerous risks, uncertainties, assumptions and other factors that are difficult to predict and that could cause actual results to vary materially from those expressed in or indicated by them.

Factors that could cause actual results to differ materially include, but are not limited to:

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the volume and timing of systems sales and installations, the length of sales cycles and the installation process and the possibility that products will not achieve or sustain market acceptance;

the timing, cost and success or failure of new product and service introductions, development and product upgrade releases;

competitive pressures including product offerings, pricing and promotional activities;

our ability to establish and maintain strategic relationships;

undetected errors or similar problems in our software products;

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compliance with existing laws, regulations and industry initiatives and future changes in laws or regulations in the healthcare industry, including possible regulation of the Company's software by the U.S. Food and Drug Administration; the possibility of product-related liabilities;

our ability to attract and retain qualified personnel;

maintaining our intellectual property rights and litigation involving intellectual property rights;

risks related to third-party suppliers and our ability to obtain, use or successfully integrate third-party licensed technology;

the occurrence of any event, development, change or other circumstances that could give rise to the termination of the Merger Agreement;

the outcome of any legal proceeding that has been or may be instituted against Allscripts, Misys or MHS and others following announcement of entry into the Merger Agreement;

the inability to complete the Transactions due to the failure to obtain stockholder approvals or the failure of any party to satisfy other conditions to completion of the Transactions;

risks that the Transactions disrupt current plans and operations and potential difficulties in employee retention as a result of the Transactions;

the ability to recognize the benefits of the Merger;

legislative, regulatory and economic developments; and

those factors discussed in **Risk Factors** included below and in Allscripts' periodic filings with the SEC.

Because forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Stockholders are cautioned not to place undue reliance on such statements, which speak only as of the date such statements are made.

Except to the extent required by applicable law or regulation, Allscripts undertakes no obligation to revise or update any forward-looking statement, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As of June 30, 2008, we did not own any derivative financial instruments, but we were exposed to market risks, primarily changes in U.S. and LIBOR interest rates. Our Senior Convertible Debentures and secured promissory note bear a fixed interest rate, and accordingly, the fair market value of the debt is sensitive to changes in interest rates. Allscripts is also exposed to the risk that our earnings and cash flows could be adversely impacted by fluctuations in interest rates due to the \$50,000 of cash acquired from our bank Credit Facility on December 31, 2007. Based upon our balance of \$50,000 of debt against our Credit Facility as of June 30, 2008, an increase in interest rates of 1.0% would cause a corresponding increase in our annual interest expense of approximately \$500.

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As of June 30, 2008, we had cash, cash equivalents and marketable securities in financial instruments of \$66,055. Declines in interest rates over time will reduce our interest income from our investments. Based upon our balance of cash, cash equivalents and marketable securities as of June 30, 2008, a decrease in interest rates of 1.0% would cause a corresponding decrease in our annual interest income of approximately \$661.

### **Item 4. Controls and Procedures**

#### **Evaluation of disclosure controls and procedures**

As of June 30, 2008, our management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based on their review and evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are adequate and effective.

#### **Changes in Internal Control**

During our most recent fiscal quarter, there has not been any change in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f)) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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**PART II OTHER INFORMATION**

**Item 1A. Risk Factors (Dollar amounts in thousands)**

The following risk factors related to the pending transaction with Misys plc and MHS replace those set forth in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008.

**Risks that Relate to the Transactions**

**The anticipated benefits from the Merger may not be realized.**

Allscripts entered into the Merger Agreement with the expectation that the Merger would result in various benefits, including, among other things, synergies, cost savings and operating efficiencies. Although we expect to achieve the anticipated benefits of the Merger, no assurance can be given that they will actually be achieved and achieving such benefits is subject to a number of uncertainties. Additionally, the elimination of duplicative costs may not be possible or may take longer than anticipated, the benefits from the Merger may be offset by costs incurred or delays in integrating MHS into Allscripts, and regulatory authorities may impose adverse conditions on Allscripts' business in connection with granting approval for the Transactions. If Allscripts fails to realize the benefits it anticipates from the acquisition, Allscripts' results of operations may be adversely affected.

**The integration of Allscripts and Misys may not be successful.**

After completion of the Transactions, Allscripts will have significantly more sales, assets and employees than it did prior to the Transactions. The integration process will require Allscripts to significantly expand the scope of its operations and financial systems. Allscripts' management will be required to devote a significant amount of time and attention to the process of integrating the operations of Allscripts' business and MHS. There is a significant degree of difficulty and management involvement inherent in that process. These difficulties include:

integrating the operations of MHS while carrying on the ongoing operations of each business;

managing a significantly larger company than before completion of the Transactions;

the possibility of faulty assumptions underlying Allscripts' expectations regarding the integration process;

coordinating businesses located in different geographic regions;

integrating two unique business cultures, which may prove to be incompatible;

attracting and retaining the personnel associated with MHS following the Merger;

creating uniform standards, controls, procedures, policies and information systems and minimizing the costs associated with such matters;

integrating information, purchasing, accounting, finance, sales, billing, payroll and regulatory compliance systems;

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changing the Allscripts fiscal year to end May 31, in coordination with the current MHS fiscal year, as well as changes in Allscripts auditors to those of MHS and aligning accounting controls of the two companies;

preserving customer, supplier, research and development, distribution, marketing, promotion and other important relationships of Allscripts and MHS; and

commercializing products under development and increasing revenues from existing marketed products.

Allscripts cannot assure its stockholders that MHS will be successfully or cost-effectively integrated into Allscripts. The process of integrating MHS into Allscripts operations may cause an interruption of, or loss of momentum in, the activities of Allscripts business after completion of the Transactions. If Allscripts management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, Allscripts business could suffer and its results of operations and financial condition may be harmed.

**The number of shares to be issued to Misys in connection with the Transactions will not be adjusted in the event the value of the business or assets of MHS declines before the Transactions are completed.**

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The calculation of the number of shares of Allscripts common stock to be issued to Misys in connection with the Transactions will not be adjusted in the event the value of the business or assets of MHS declines prior to the consummation of the Transactions or the value of Allscripts increases prior to the consummation of the Transactions. Allscripts will not be required to consummate the Transactions if there has been any material adverse effect (as this term is defined in the Merger Agreement) on MHS. However, Allscripts will not be permitted to terminate the Merger Agreement or resolicit the vote of Allscripts stockholders because of any changes in the market price of Allscripts common stock or any changes in the value of MHS that does not rise to the level of a material adverse effect on MHS.

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**Table of Contents****Current Allscripts equityholders' ownership interest in Allscripts will be substantially diluted.**

Following the consummation of the Transactions, Allscripts' equityholders will, in the aggregate, own a significantly smaller percentage of Allscripts than they own immediately prior to the Transactions. Following consummation of the Transactions, Allscripts' equityholders, which includes holders of our convertible debentures, immediately prior to the Transactions are expected to collectively own approximately 45.5% of Allscripts on a fully diluted basis. Additionally, Allscripts stockholders could own as little as approximately 40.8% of the outstanding common stock of Allscripts and related voting power and as little as approximately 37.2% of Allscripts common stock on a fully diluted basis after consummation of the Transactions. Consequently, Allscripts' stockholders, as a group, will be able to exercise significantly less influence over the management and policies of Allscripts following the Merger than they will exercise over the management and policies of Allscripts immediately prior to the Merger. Additionally, Misys will be a majority stockholder in Allscripts and will have the power to block or approve most actions or proposals. The Transactions will also include an amendment to Allscripts' certificate of incorporation to increase Allscripts' authorized capital stock, which results in an increase in the number of shares of our common stock that are available to be issued in the future.

**The number of shares of Allscripts common stock to be issued to Misys for Misys to reach the 54.5% fully diluted ownership percentage takes into consideration all of the shares issuable upon conversion of our 3.50% Convertible Senior Debentures. However, the shares into which the debentures are convertible may never be issued or only a portion of them may be issued, which would result in Misys' ownership percentage being substantially higher than 54.5% and possibly as high as 59.2%.**

When calculating the number of shares of our common stock issuable to Misys in connection with the Transactions, the number of shares into which debentures outstanding on the closing date are convertible will be included in the calculation. However, such shares of our common stock underlying the debentures may never be issued, or may only be issued in part, for a variety of reasons outside of Allscripts' control, including the decision of a debenture holder to hold the debentures until maturity or to require us to repurchase debentures for cash after the closing of the Transactions. Moreover, the Transactions will result in an antidilution adjustment to increase the number of shares of our common stock issuable upon conversion of any debentures outstanding as of the close of business on the dividend record date. These additional shares resulting from the antidilution adjustment, which will be included in calculation of the number of shares issuable to Misys, may never be issued, or may only be issued in part. Additionally, the number of shares of Allscripts common stock issuable for in-the-money options and the restricted stock grants granted after execution of the Merger Agreement will also be included in calculating the number of Allscripts shares issuable to Misys. As a result, the percentage of our outstanding shares of common stock (and associated voting power) and fully-diluted shares owned by Misys could be significantly higher than 54.5%. We currently estimate that Misys' ownership percentage of our outstanding common stock immediately after the consummation of the Transactions will be between 54.5% and 59.2%. This increase in ownership percentage will further reduce Allscripts' pre-Merger stockholders' ability to influence management or matters submitted to a vote of stockholders.

**Holders of our 3.50% Convertible Senior Debentures have the right to require us to repurchase their debentures for cash as a result of the Transactions.**

The consummation of the Transactions will be a change of control, as defined in the indenture relating thereto, thus triggering the right of holders of our 3.50% convertible senior debentures to require us to repurchase, in cash, all or any portion of their debentures at a price equal to 100% of the principal amount, which is an aggregate of \$82.5 million, plus accrued and unpaid interest, if any, pursuant to the terms of the indenture relating thereto. We may not have sufficient funds on hand or available through existing borrowing facilities to repurchase all of the outstanding debentures and, thus, we may need to seek additional financing to repurchase debentures as required under the indenture related thereto. However, there can be no assurances that we will be able to obtain any such financing on terms favorable to us, if at all. Failure to repay or repurchase tendered debentures will result in an event of default with respect to the debentures. Allscripts has entered into a commitment letter with JPMorgan Chase Bank, N.A. for a backstop borrowing facility of up to \$50 million in the event that Allscripts-Misys is required to purchase all or any of the outstanding debentures. Allscripts-Misys may be required to borrow the maximum amount under such facility in order to fulfill its obligations under the indenture relating to the debentures, which would result in a significant increase in the aggregate level of Allscripts-Misys' debt as compared to a situation where the holders of the debentures exercise their right to convert the debentures into shares of Allscripts-Misys' common stock.

**Allscripts will incur significant transaction and merger costs related to the consummation of the Transactions that could have an adverse effect on its operating results.**

Allscripts will incur financial advisor fees, filing fees, soliciting fees, legal and accounting costs, consummation and retention bonuses and certain other transaction related costs after June 30, 2008 that it estimates will be approximately \$23 million. Further, under the Merger Agreement, Allscripts has agreed to pay Misys for up to \$5 million of its transaction related expenses. In addition, Allscripts anticipates that it will incur significant costs in connection with the integration of MHS and its current operations. Allscripts is in the early stages of assessing the magnitude of these integration costs and, therefore, is unable to estimate the dollar value thereof. Allscripts may incur additional unanticipated costs in connection with the Transactions and related to the integration of MHS. Although Allscripts expects that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the business, will offset incremental transaction, merger-related and integration costs over time, we cannot assure you that this net benefit will be achieved in the near term or at all.

**Allscripts and MHS will be subject to business uncertainties and contractual restrictions while the Transactions are pending which could adversely affect their businesses.**

Uncertainty about the effect of the Transactions on employees and customers may have an adverse effect on Allscripts and MHS and, consequently, on Allscripts as the combined company after completion of the Transactions. Although Allscripts and Misys intend to take steps to reduce any adverse effects, these uncertainties may impair Allscripts and MHS ability to attract, retain and motivate key personnel until the Transactions are consummated and for a period of time thereafter, and could cause customers, suppliers and others that deal with Allscripts and MHS to seek to change existing business relationships. Employee retention may be particularly challenging during the pendency of the Transactions, as employees may experience uncertainty about their future roles with Allscripts. If, despite Allscripts and MHS retention efforts, key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain, Allscripts business after completion of the Transactions could be seriously harmed. In addition, the Merger Agreement restricts Allscripts and MHS from making certain acquisitions and taking other specified actions until the Transactions occur or the Merger Agreement terminates. These restrictions may prevent Allscripts and MHS from pursuing otherwise attractive business opportunities and making other changes to their businesses that may arise prior to completion of the Transactions or termination of the Merger Agreement.

**The historical financial information of MHS may not be representative of its results if it had been operated independently of Misys or as a subsidiary of Allscripts and, as a result, may not be a reliable indicator of its future results.**

MHS is currently a fully integrated business unit of Misys. Consequently, the financial information of MHS provided to Allscripts is not representative of MHS future financial position, future results of operations or future cash flows, nor does it reflect what MHS financial position, results of operations or cash flows would have been either as a stand alone company or as a subsidiary of Allscripts. This is because such financial information reflects allocation of expenses from Misys, based on Misys assumptions, that may be different from the assumptions and allocations that would have been made if MHS was a subsidiary of Allscripts. As a result, the historical financial information of MHS may not be a reliable indicator of its future results as a subsidiary of Allscripts.

**Failure to consummate the Transactions could adversely impact the market price of Allscripts common stock as well as Allscripts business, financial condition and results of operations.**

If the Transactions are not completed for any reason, the price of Allscripts common stock may decline. In addition, Allscripts may be subject to additional risks, including:

depending on the reasons for and the timing of the termination of the Merger Agreement, the requirement in the Merger Agreement that Allscripts pay Misys and MHS an aggregate termination fee of \$14,282;

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substantial costs related to the acquisition, such as legal, accounting, filing, financial advisory and financial printing fees, which must be paid regardless of whether the Transactions are completed; and

potential disruption to the business of Allscripts and distraction of its workforce and management team.

**The Merger Agreement contains provisions that may discourage other companies from trying to acquire Allscripts.**

The Merger Agreement contains provisions that may discourage a third party from submitting a business combination proposal to Allscripts prior to the closing of the Transactions that might result in greater value to Allscripts stockholders than the Transactions. The Merger Agreement generally prohibits Allscripts from soliciting any takeover proposal. In addition, if the Merger Agreement is terminated by Allscripts or Misys in circumstances that obligate Allscripts to pay a termination fee to Misys, Allscripts' financial condition may be adversely affected as a result of the payment of the termination fee, which might deter third parties from proposing alternative business combination proposals.

**The Transactions will result in an annual limitation on the ability of Allscripts to utilize net operating losses in tax years ending after the Transactions.**

As of December 31, 2007 the net operating loss carryover of Allscripts for federal income tax purposes was believed to be approximately \$205 million. The Transactions will result in an ownership change within the meaning of Section 382 of the Internal Revenue Code. As a result, in years ending after the Transactions, Allscripts' use of its net operating loss carryovers will be subject to an annual limitation. Although Allscripts does not expect the annual limitation to have a material adverse effect on its cash flow in future periods, the actual effect of the annual limitation will depend on future circumstances and therefore it is not possible to predict with certainty the effect of the annual limitation.

**Other Risks that Relate to Allscripts and MHS after the Transactions**

**The application of the purchase method of accounting will result in additional goodwill which could become impaired and adversely affect Allscripts' net worth and the market value of Allscripts' common stock.**

Under the purchase method of accounting, the assets and liabilities of Allscripts will be recorded, as of completion of the Transactions, at their respective fair values and added to those of MHS, which will be carried at their book values. The purchase price will be allocated to Allscripts' tangible assets and liabilities and identifiable intangible assets, if any are identified, based on their fair values as of the date of completion of the Merger. The excess of such price over those fair values will be recorded as goodwill. Goodwill and other acquired intangibles expected to contribute indefinitely to Allscripts' cash flows are not amortized, but must be evaluated by management at least annually for impairment. To the extent the value of goodwill or intangibles becomes impaired, Allscripts may be required to incur material charges relating to such impairment. Such a potential impairment charge could have a material impact on the combined company's operating results.

**Allscripts will be affected by restrictions on its ability to issue equity awards to employees after the consummation of the Transactions, which may make it more difficult for Allscripts to retain or attract key employees.**

Pursuant to the relationship agreement between Allscripts and Misys (the Relationship Agreement), Allscripts will be subject to restrictions and conditions on the issuance of equity awards to its employees after consummation of the Transactions. As a result, it may be more difficult for Allscripts to retain its key employees or attract new employees. Allscripts' results of operations and financial condition may be adversely affected as a result thereof.

**If the combined Allscripts-Misys fails to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and our stock price.**

Commencing as early as the fiscal year ending May 31, 2009, the combined Allscripts-Misys must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered certified public accounting firm to begin reporting on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Although Allscripts currently is subject to these requirements under the Sarbanes-Oxley Act, MHS is not and MHS has not performed the system and process evaluation and testing of its internal control over financial reporting. This testing, or the subsequent testing by our independent registered certified public accounting firm, may reveal deficiencies in the combined entity's internal control over financial reporting that are deemed to be material weaknesses. Moreover, if the combined entity is not able to comply with the requirements of Section 404 in a timely manner, or if it or its independent registered certified public accounting firm identifies deficiencies in the combined Allscripts-Misys internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be

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subject to sanctions or investigations by the NASDAQ, the SEC or other regulatory authorities, which would require additional financial and management resources.

**Other Risks that Relate to an Investment in Allscripts Common Stock**

**The trading price and trading volume of Allscripts common stock may be more volatile following completion of the Transactions.**

Allscripts cannot predict how investors in Allscripts common stock will behave after completion of the Transactions. The trading price for shares of common stock of Allscripts following completion of the Transactions may be more volatile than the trading price of shares of Allscripts common stock before completion of the Transactions. The trading price of shares of Allscripts common stock could fluctuate significantly for many reasons, including the risks identified in this proxy statement, or reasons unrelated to Allscripts performance. Additionally, the fact that Allscripts will have a majority stockholder after completion of the Transactions could result in less trading volume in Allscripts common stock. These factors and other factors beyond Allscripts control may result in reduced trading volume and/or increased volatility in Allscripts common stock and/or short- or long-term reductions in the value of Allscripts securities.



**Table of Contents****After the completion of the Transactions, Misys will have voting power to block future Allscripts business combinations.**

Under our proposed amended charter and by-laws, approval of actions by stockholders requires a majority of the shares of common stock present in person and entitled to vote on the matter except as otherwise required by Delaware law. Because of the size of Misys' interest in Allscripts following the Merger, Misys will have the ability to control or significantly influence the outcome of most matters submitted to a stockholder vote following the Merger. Misys' interests with respect to any matter which is subject to a stockholder vote may diverge from or conflict with those of Allscripts and its other stockholders. In addition, it will likely be impracticable (as long as Misys retains a majority ownership stake in Allscripts) for a third party to acquire Allscripts through a merger or similar business combination without Misys' approval. Additionally, pursuant to the Relationship Agreement, Misys will have the right to name six of Allscripts' initial ten directors, as well as the Chairman of the Board at the time of the consummation of the Transactions, and Misys' rights to nominate certain numbers of directors will continue so long as it owns specified percentages of Allscripts common stock.

**We expect to qualify for and intend to rely on exceptions from certain corporate governance and other requirements under the rules of Nasdaq.**

We expect to qualify for exceptions from certain corporate governance and other requirements of the rules of Nasdaq. Pursuant to these exceptions, we will elect not to comply with certain corporate governance requirements of Nasdaq, including the requirements (i) that a majority of our board of directors consist of independent directors, (ii) that we have a nominating/corporate governance committee that is composed entirely of independent directors and (iii) that we have a compensation committee that is composed entirely of independent directors. Accordingly, you will not have the same protections afforded to equityholders of entities that are subject to all of the corporate governance requirements of Nasdaq.

**The interests of Misys may differ from the interests of other holders of Allscripts common stock.**

Immediately after completion of the Transactions, Misys will own approximately 54.5% of Allscripts' outstanding common stock on a fully diluted basis and a higher percentage of the actual outstanding common stock, possibly as much as 59.2%. Accordingly, Misys will have the ability to control or significantly influence management, the board of directors and other affairs. In addition, Misys will be able to determine the outcome of all matters requiring stockholder approval (such as a proposed sale of all or substantially all of our assets or the approval of a merger or consolidation involving Allscripts), subject to the voting agreements contained in the Relationship Agreement. The interests of Misys may differ from those of other holders of Allscripts common stock in material respects. For example, Misys may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in its judgment, could enhance its investment, even though such transactions might involve risks to other holders of Allscripts common stock. Additionally, Misys may determine that the disposition of some or all of its interests in Allscripts would be beneficial to Misys at a time when such disposition could be detrimental to the other holders of Allscripts common stock.

**Sales of Allscripts common stock by Misys after the Transactions may negatively affect the market price of Allscripts common stock.**

While the shares of Allscripts common stock issued in the Transactions to Misys will be not be registered and will be subject to transfer restrictions, sales of a large number of such shares, or even the perception that these sales could occur, could cause a decline in the market price of our common stock. Furthermore, pursuant to the Relationship Agreement, Allscripts has an obligation to negotiate in good faith to grant Misys customary registration rights, thereby facilitating such sales of Allscripts shares.

**Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities****ISSUER PURCHASES OF EQUITY SECURITIES**

(Share amounts in thousands)

| Period                         | (a) Total<br>Number of<br>Shares<br>Purchased (1) | (b) Average<br>Price Paid per Share |
|--------------------------------|---|-------------------------------------|
| April 1, 2008 – April 30, 2008 | 17  | \$10.64                             |
| May 1, 2008 – May 31, 2008     |   | \$                                  |

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| June 1, 2008 | June 30, 2008 |       | \$         |
|--------------|---------------|-------|------------|
|              |               | Total | 17 \$10.64 |

(1) Shares withheld for tax liabilities upon vesting of restricted stock awards.



## Item 5. Other Information

On August 7, 2008, Allscripts LLC, a wholly-owned subsidiary of Allscripts Healthcare Solutions, Inc. ( Allscripts ), entered into an amendment to the employment agreement with Benjamin E. Bulkley ( Amendment ). The Amendment provides that the initial term of Mr. Bulkley s employment will be extended to continue in effect through December 31, 2008. Thereafter, Allscripts may renew the agreement by providing written notice at least 90 days prior to the expiration of the then current term. In addition to the amendments described below, the Amendment includes modifications of existing and inclusion of new provisions to comply with Section 409A of the Internal Revenue Code.

If Allscripts elects not to renew Mr. Bulkley s agreement, he is entitled to severance equal to one year of his base salary (payable monthly subject to the requirements of Section 409A of the Code), the performance bonus for the year in which the termination date occurs, a cash payment of \$10,000 in lieu of outplacement services, continuation of health benefits for twelve months, relocation benefits not to exceed twelve months following the termination date and vesting of all stock options or other awards within three business days following the termination date. Allscripts has the right, exercisable within two business days of termination, to make a cash payment of up to 90% of the value of such unvested awards based on the closing market price on the termination date, in lieu of such vesting. Mr. Bulkley is entitled to the same benefits described above in the event he terminates his employment as a result of a constructive discharge (as defined in the original employment agreement), which includes a change of control (as defined in the original employment agreement).

If employment is terminated due to death or disability, Allscripts is obligated to pay Mr. Bulkley, or his estate, earned but unpaid base salary, the unpaid performance bonus, if any, for the year preceding the year in which the termination date occurs and the performance bonus, if any, for the fiscal year in which the termination date occurs.

The Amendment also deleted Section 4.5.2 of the original employment agreement, which entitled Mr. Bulkley to additional severance of two times base salary and bonus if Mr. Bulkley terminates his employment for constructive discharge following a change of control. Finally, the Amendment modified the covenant of Mr. Bulkley not to compete with Allscripts by, among other things, adding a list of competitors and providing that the covenant applies regardless of the basis for termination.

A copy of the Amendment is attached to, and incorporated by reference in, this Quarterly Report on Form 10-Q as Exhibit 10.1. The foregoing description of the Amendment is qualified in its entirety by reference to the full text of the Amendment.

On March 17, 2008, concurrently with the execution of the Agreement and Plan of Merger (the Merger Agreement ) among Misys, Misys Healthcare Systems, LLC, an indirect wholly-owned subsidiary of Misys ( MHS ), Allscripts and Patriot Merger Company, LLC, a wholly-owned subsidiary of Allscripts ( Merger Sub ), and in order to induce Misys and MHS to enter into the Merger Agreement, Allscripts entered into Employment Agreements with each of Glen E. Tullman, Chief Executive Officer, Lee A. Shapiro, President, and William J. Davis, Chief Financial Officer. These employment agreements only become effective as of the effective time of the merger between Merger Sub and MHS. A description of these employment agreements is contained in Allscripts preliminary proxy statement filed with the Securities Exchange Commission on July 21, 2008 and will be contained in Allscripts definitive proxy statement to be mailed to Allscripts stockholders in connection with the transactions with Misys. Copies of these employment agreements are filed as Exhibits 10.2, 10.3 and 10.4, respectively, to this Quarterly Report on Form 10-Q.

On August 6, 2008, Allscripts entered into a commitment letter with JPMorgan Chase Bank, N.A. in order to set forth terms regarding an amendment and restatement of its existing revolving credit facility. The amended credit facility would (i) increase the aggregate principal amount available thereunder from \$60,000,000 to \$75,000,000 and (ii) provide a backstop facility of up to \$50,000,000 to be used to fund any repurchases of Allscripts 3.50% Convertible Senior Debentures arising by reason of the transactions with Misys plc ( Misys ). The amended credit facility will contain usual and customary representations, warranties and covenants for transactions of this type. The amended credit facility is subject to customary closing conditions. A copy of the commitment letter is attached to, and incorporated by reference in, this Quarterly Report on Form 10-Q as Exhibit 10.5. The foregoing description of the commitment letter is qualified in its entirety by reference to the full text of the commitment letter.

## Item 6. Exhibits

### (a) Exhibits

See Index to Exhibits.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 8, 2008.

**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

By: */S/ WILLIAM J. DAVIS*  
William J. Davis  
*Chief Financial Officer*  
*(Duly Authorized Officer and*  
*Principal Financial Officer)*

Date: August 8, 2008

**Table of Contents****INDEX TO EXHIBITS**

| <b>Exhibit Number</b> | <b>Description</b>  | <b>Reference</b> |
|-----------------------|---|------------------|
| 10.1                  | First Amendment to Employment Agreement dated as of August 7, 2008 between Allscripts LLC and Benjamin E. Bulkley   | Filed herewith   |
| 10.2                  | Employment Agreement, dated as of March 17, 2008 but effective as of the effective time of the merger between Misys Healthcare Systems, LLC and Patriot Merger Company, LLC, between Allscripts Healthcare Solutions, Inc. and Glen E. Tullman  | Filed herewith   |
| 10.3                  | Employment Agreement, dated as of March 17, 2008 but effective as of the effective time of the merger between Misys Healthcare Systems, LLC and Patriot Merger Company, LLC, between Allscripts Healthcare Solutions, Inc. and Lee A. Shapiro   | Filed herewith   |
| 10.4                  | Employment Agreement, dated as of March 17, 2008 but effective as of the effective time of the merger between Misys Healthcare Systems, LLC and Patriot Merger Company, LLC, between Allscripts Healthcare Solutions, Inc. and William J. Davis | Filed herewith   |
| 10.5                  | Commitment letter dated August 6, 2008, between JP Morgan Chase Bank, National Association and Allscripts Healthcare Solutions, Inc.  | Filed herewith   |
| 31.1                  | Rule 13a-14(a) Certification of Chief Executive Officer   | Filed herewith   |
| 31.2                  | Rule 13a-14(a) Certification of Chief Financial Officer   | Filed herewith   |
| 32.1                  | Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer  | Filed herewith   |