

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

Form 10-Q

November 09, 2012

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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 September 30, 2012

OR

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

Commission file number 001-35547

**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

**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)

**(312) 506-1200**

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 31, 2012, there were 171,735,749 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****(Unaudited)**

<b>(In thousands, except per share amounts)</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 93,672	\$ 157,753
Accounts receivable, net of allowance of \$19,134 and \$12,505 at September 30, 2012 and December 31, 2011, respectively	371,322	362,793
Deferred taxes, net	40,606	40,600
Inventories	1,722	2,059
Prepaid expenses and other current assets	124,494	117,444
Total current assets	631,816	680,649
Long-term marketable securities	1,718	1,675
Fixed assets, net	143,823	122,563
Software development costs, net	105,479	98,378
Intangible assets, net	442,381	489,848
Goodwill	1,039,364	1,039,364
Deferred taxes, net	5,017	5,017
Other assets	38,030	79,847
Total assets	\$ 2,407,628	\$ 2,517,341
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 51,765	\$ 41,215
Accrued expenses	85,419	103,381
Accrued compensation and benefits	29,181	31,784
Deferred revenue	301,125	288,900
Current maturities of long-term debt and capital lease obligations	72,951	45,477
Total current liabilities	540,441	510,757
Long-term debt	386,793	322,664
Deferred revenue	20,663	18,891
Deferred taxes, net	122,317	119,728
Other liabilities	38,294	68,581
Total liabilities	1,108,508	1,040,621
Commitments and contingencies		
Stockholders equity:		
Preferred stock: \$0.01 par value, 1,000 shares authorized, no shares issued and outstanding at September 30, 2012 and December 31, 2011	0	0
Common stock: \$0.01 par value, 349,000 shares authorized at September 30, 2012 and December 31, 2011; 256,134 and 171,462 shares issued and outstanding at September 30, 2012, respectively, 254,691	2,561	2,547

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and 190,382 shares issued and outstanding at December 31, 2011, respectively

Treasury stock: at cost, 84,672 and 63,951 shares at September 30, 2012 and December 31, 2011, respectively

	(278,036)	(52,075)
Additional paid-in capital	1,567,940	1,543,167
Retained earnings (accumulated deficit)	6,792	(16,377)
Accumulated other comprehensive loss	(137)	(542)
Total stockholders' equity	1,299,120	1,476,720
Total liabilities and stockholders' equity	\$ 2,407,628	\$ 2,517,341

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

**Table of Contents****ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

<b>(In thousands, except per share amounts)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenue:</b>				
System sales	\$ 35,220	\$ 54,646	\$ 116,176	\$ 165,420
Professional services	62,749	65,275	201,615	179,004
Maintenance	119,263	113,244	354,295	325,415
Transaction processing and other	143,462	130,571	423,276	386,036
<b>Total revenue</b>	<b>360,694</b>	<b>363,736</b>	<b>1,095,362</b>	<b>1,055,875</b>
<b>Cost of revenue:</b>				
System sales	29,960	39,604	96,608	110,420
Professional services	54,534	56,305	173,260	150,367
Maintenance	36,564	32,840	108,850	100,963
Transaction processing and other	82,600	73,014	246,441	204,507
<b>Total cost of revenue</b>	<b>203,658</b>	<b>201,763</b>	<b>625,159</b>	<b>566,257</b>
<b>Gross profit</b>	<b>157,036</b>	<b>161,973</b>	<b>470,203</b>	<b>489,618</b>
Selling, general and administrative expenses	90,412	92,152	280,020	297,832
Research and development	37,802	26,032	112,164	72,800
Asset impairment charges	11,101	0	11,101	0
Amortization of intangible assets	8,537	9,422	27,047	28,071
<b>Income from operations</b>	<b>9,184</b>	<b>34,367</b>	<b>39,871</b>	<b>90,915</b>
Interest expense	(3,718)	(3,746)	(11,930)	(16,723)
Interest income and other (expense), net	(15,845)	425	(15,303)	1,184
<b>(Loss) income before income taxes</b>	<b>(10,379)</b>	<b>31,046</b>	<b>12,638</b>	<b>75,376</b>
Benefit (provision) for income taxes	19,754	(11,909)	10,531	(27,750)
<b>Net income</b>	<b>\$ 9,375</b>	<b>\$ 19,137</b>	<b>\$ 23,169</b>	<b>\$ 47,626</b>
<b>Earnings per share basic and diluted</b>	<b>\$ 0.05</b>	<b>\$ 0.10</b>	<b>\$ 0.13</b>	<b>\$ 0.25</b>

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

**Table of Contents****ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 9,375	\$ 19,137	\$ 23,169	\$ 47,626
Other comprehensive income (loss):				
Unrealized gain (loss) on marketable securities, net of tax	75	(7)	79	(6)
Derivatives:				
Unrealized loss on derivative financial instruments	(433)	(2,420)	(1,544)	(5,724)
Reclassification adjustment for loss included in net income	432	535	1,376	1,528
Tax effect	(1)	738	65	1,635
Unrealized loss on derivative financial instruments, net of tax	(2)	(1,147)	(103)	(2,561)
Change in foreign currency translation adjustments	556	(1,933)	429	(1,091)
Total other comprehensive income (loss)	629	(3,087)	405	(3,658)
Comprehensive income	\$ 10,004	\$ 16,050	\$ 23,574	\$ 43,968

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

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**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<b>(In thousands)</b>	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 23,169	\$ 47,626
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	110,582	97,236
Stock-based compensation expense	26,463	29,155
Excess tax benefits from stock-based compensation	(609)	(4,688)
Deferred taxes	951	25,212
Asset impairment charges	11,101	0
Other losses	795	2,685
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	(8,094)	(54,306)
Inventories	297	1,796
Prepaid expenses and other assets	(3,395)	(19,870)
Accounts payable	7,767	(9,446)
Accrued expenses	(17,916)	9,494
Accrued compensation and benefits	(1,628)	(16,944)
Deferred revenue	14,379	52,869
Other liabilities	686	506
<b>Net cash provided by operating activities</b>	<b>164,548</b>	<b>161,325</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(55,481)	(33,301)
Capitalized software	(39,340)	(46,529)
Purchases of marketable securities and other investments	0	(12,900)
Sales and maturities of marketable securities and other investments	84	43
Proceeds received from sale of fixed assets	0	20,000
Change in restricted cash	0	2,225
<b>Net cash used in investing activities</b>	<b>(94,737)</b>	<b>(70,462)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	4,042	27,481
Excess tax benefits from stock-based compensation	609	4,688
Taxes paid related to net share settlement of equity awards	(4,352)	(2,179)
Payments of capital lease obligations	(635)	(1,074)
Credit facility payments	(233,259)	(160,496)
Credit facility borrowings, net of issuance costs	324,035	47,193
Repurchase of common stock	(225,961)	(50,051)
<b>Net cash used in financing activities</b>	<b>(135,521)</b>	<b>(134,438)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,629</b>	<b>(1,050)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(64,081)</b>	<b>(44,625)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>157,753</b>	<b>129,403</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 93,672</b>	<b>\$ 84,778</b>

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

**Table of Contents****ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Summary of Significant Accounting Policies*****Principles of Consolidation***

The consolidated financial statements include the accounts of Allscripts Healthcare Solutions, Inc. and our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Certain prior period amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income or stockholders' equity. The amount reclassified for each period is as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue reclassifications from system sales to maintenance	\$ 0	\$ 2,895	\$ 6,317	\$ 11,483

***Unaudited Interim Financial Information***

The unaudited interim consolidated financial statements as of and for the three and nine months ended September 30, 2012 have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements are unaudited and, in the opinion of management, include all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the consolidated financial statements for the periods presented in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted in accordance with the SEC's rules and regulations for interim reporting. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates.

***Significant Accounting Policies***

We have updated our revenue recognition accounting policy disclosure from our Annual Report on Form 10-K for the year ended December 31, 2011 to include discussion of additional revenue elements. There has been no change in our accounting for revenue. Also, there have been no other changes to our significant accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

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### ***Revenue Recognition***

Revenue represents the fair value of consideration received or receivable from clients for goods and services provided by the Company. Revenue from system sales includes software and related hardware. Revenue from professional services includes implementation, training and consulting services. Revenue from maintenance includes post contract customer support and maintenance services. Revenue from transaction processing and other includes electronic data interchange ( EDI ) services, Software-as-a-Service ( SaaS ) transactions, software hosting services, and outsourcing. For some clients, we host the software applications licensed from us remotely using our own or third party servers, which saves these clients the cost of procuring and maintaining hardware and related facilities. For other clients, we offer an outsourced solution in which we assume partial to total responsibility for a healthcare organization's information technology operations using our employees.

Revenue from software licensing arrangements where the service element is not considered essential to the functionality of the other elements of the arrangement is recognized upon delivery of the software or as services are performed, provided persuasive evidence of an arrangement exists, fees are considered fixed or determinable, and collection of the receivable is 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 or renewed. For arrangements in which vendor-specific objective evidence of fair value only exists for the undelivered elements, the delivered elements (which is generally software licenses) are accounted for using the residual method.

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 on an input basis under percentage of completion accounting using actual hours worked as a percentage of total expected hours required by the arrangement, provided that persuasive evidence of an arrangement exists, the fee is fixed or 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 based upon contractual renewal rates. For income statement presentation, consideration from agreements accounted for under percentage of completion accounting is allocated between software and services based on vendor specific evidence of our hourly services rate multiplied by the amount of hours performed with the residual amount allocated to software license fee.

Revenue from certain value-added reseller ( VAR ) relationships in which software is directly sold to VARs is recognized upon delivery of the software assuming all other revenue recognition criteria have been met. Revenue recognition is deferred until the software is delivered to the ultimate end user if the arrangement terms do not satisfy the criteria for revenue recognition upon delivery of the software to the VAR.

Fees related to SaaS arrangements are recognized as revenue ratably over the contract terms beginning on the date our solutions are made available to customers. These arrangements include professional services fees related to the implementation and set-up of our solutions and are generally billed upfront and recorded as deferred revenue until our solutions are made available to the customer. The implementation and set-up fees are recognized as revenue ratably over the estimated customer relationship period. The estimated length of a customer relationship period is based on our experience with customer contract renewals and consideration of the period over which such customers utilize our SaaS solutions.

Software hosting services are provided to clients that have purchased a perpetual license to our software solutions and contracted with us to host the software. Generally, these arrangements provide the client with a contractual right to take possession of the software at any time during the hosting period without significant penalty and it is feasible for the client to either use the software on its own equipment or to contract with an unrelated third party to host the software. Hosting services are not deemed to be essential to the functionality of the software or other elements of the arrangement; accordingly, for these arrangements, we recognize software license revenues as system sales revenue upon delivery, assuming all other revenue recognition criteria have been met, and separately recognize fees for the hosting services as transaction processing and other revenue over the term of the hosting arrangement.

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We also enter into multiple-element arrangements that may include a combination of various software-related and nonsoftware-related products and services. Management applies judgment to ensure appropriate accounting for multiple deliverables, including the allocation of arrangement consideration among multiple units of accounting, the determination of whether undelivered elements are essential to the functionality of delivered elements, and the timing of revenue recognition, among others. In such arrangements, we first allocate the total arrangement consideration based on a selling price hierarchy at the inception of the arrangement. The selling price for each element is based upon the following selling price hierarchy: vendor-specific objective evidence of fair value if available, third-party evidence of fair value if vendor-specific objective evidence of fair value is not available, or estimated selling price if neither vendor-specific objective evidence or third-party evidence of fair value is available (a description as to how we determine vendor-specific objective evidence of fair value, third-party evidence of fair value and estimated selling price is provided below). Upon allocation of consideration to the software elements as a whole and nonsoftware elements, we then further allocate consideration within the software group to the respective elements following higher-level, industry-specific guidance and our policies described above. After the arrangement consideration has been allocated to the elements, we account for each respective element in the arrangement as described above.

To determine the selling price in multiple-element arrangements, we establish vendor-specific objective evidence of fair value using the price charged for a deliverable when sold separately and contractual renewal rates for maintenance fees. For nonsoftware multiple element arrangements, third-party evidence of fair value is established by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated customers. If we are unable to determine the selling price because vendor-specific objective evidence or third-party evidence of fair value does not exist, we determine an estimated selling price by considering several external and internal factors including, but not limited to, pricing practices, margin objectives, competition, customer demand, internal costs and overall economic trends. The determination of an estimated selling price is made through consultation with and approval by our management, taking into consideration our go-to-market strategy. As our, or our competitors', pricing and go-to-market strategies evolve, we may modify our pricing practices in the future. These events could result in changes to our determination of vendor-specific objective evidence of fair value, third-party evidence of fair value and estimated selling price. Selling prices are analyzed on an annual basis or more frequently if we experience significant changes in our selling prices.

For those arrangements where the deliverables do not qualify as separate units of accounting, revenue recognition is evaluated for the combined deliverables as a single unit of accounting and generally the recognition pattern of the final deliverable will dictate the revenue recognition pattern for the single, combined unit of accounting. Changes in circumstances and customer data may affect management's analysis of separation criteria which may lead to an upward or downward adjustment to the amount of revenue recognized under the arrangement.

We assess whether fees are fixed or determinable at the time of sale and recognize revenues if all other revenue recognition requirements are met. Our payment arrangements with clients typically include milestone-based software license fee payments and payments based upon delivery for services and hardware.

While most of our arrangements include short-term payment terms, we periodically provide extended payment terms to clients from the date of contract signing. We do not recognize revenue under extended payment term arrangements until such payments become due. In certain circumstances, where all other revenue recognition criteria have been met, we occasionally offer discounts to clients with extended payment terms, in order to accelerate the timing of when payments are made. Changes to extended payment term arrangements have not had a material impact on our consolidated results of operations.

Maintenance fees are recognized ratably over the period of the contract based on vendor specific objective evidence of fair value based upon contractual renewal rates. Revenue from EDI services is recognized as services are provided and is determined based on the volume of transactions processed.

We provide outsourcing services to our clients under arrangements that typically range from five to ten years in duration. Under these arrangements we assume full, partial or transitional responsibilities for a healthcare organization's IT operations using our employees. Our outsourcing services include facilities management, network outsourcing and transition management. Revenue from these arrangements is recognized as services are performed.

Revenue is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities. We record as revenue any amounts billed to customers for shipping and handling costs and record as cost of revenue the actual shipping costs incurred.

The Company records reimbursements for out-of-pocket expenses incurred as professional services revenue in the statement of operations.

Revenue earned on contracts in excess of billings is included in the balance of accounts receivable. Billings are expected to occur according to the contract terms.



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***Recent Accounting Pronouncements***

In September 2011, the Financial Accounting Standards Board ( FASB ) issued updated authoritative guidance for testing goodwill for impairment. This guidance allows entities to use a qualitative approach to test goodwill for impairment. The guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. This guidance will not have a material impact on the consolidated financial statements.

In May 2011, the FASB issued additional authoritative guidance related to fair value measurements and disclosures to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. This guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2011 and will be applied prospectively. We do not currently have Level 3 fair value instruments. This guidance did not have a material impact on the consolidated financial statements.

**Table of Contents****2. Fair Value Measurements**

The fair values of assets and liabilities required to be measured at fair value are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels are as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Our Level 1 investments include money market funds valued daily by the fund companies, and the valuation is based on the publicly reported net asset value of each fund.

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. Our Level 2 non-derivative investments include marketable securities and consist of mortgage and asset-backed bonds. Marketable securities are recorded at fair value determined using a market approach, based on prices and other relevant information generated by market transactions involving identical or comparable assets which are considered to be Level 2 inputs. Our Level 2 derivative financial instrument represents an interest rate swap contract which is valued based upon observable values for underlying interest rates and market determined risk premiums.

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 have no Level 3 financial instruments.

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of the respective balance sheet dates:

(In thousands)	Balance Sheet Classifications	September 30, 2012			December 31, 2011		
		Level 1	Level 2	Total	Level 1	Level 2	Total
Money market funds	Cash equivalents	\$ 9,361	\$ 0	\$ 9,361	\$ 14,071	\$ 0	\$ 14,071
Marketable securities	Long-term marketable securities	0	1,718	1,718	0	1,675	1,675
Derivatives	Other liabilities	0	(1,922)	(1,922)	0	(1,754)	(1,754)
Total		\$ 9,361	(\$ 204)	\$ 9,157	\$ 14,071	(\$ 79)	\$ 13,992

We hold investments in certain non-marketable equity securities in which we do not have a controlling interest or significant influence. These investments are recorded at cost with a carrying value of \$13 million at September 30, 2012 and are included in other assets in the accompanying consolidated balance sheets. We measure our cost method investments at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. If an evaluation is required, the fair value of these investments will be determined based on valuation techniques using the best information available and may include quoted market prices, market comparables, and discounted cash flow projections.

Our long-term financial liabilities consist of long-term debt with a carrying value that approximates fair value since the interest rate approximates current market rates.

**Table of Contents****3. Stockholders' Equity****Stock-based Awards**

We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize the expense over the appropriate service period typically on a straight-line basis, net of estimated forfeitures. The fair value of restricted stock units and restricted stock awards are measured at their underlying closing share price on the date of grant.

We recorded stock-based compensation expense as follows:

(In thousands)	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
Total stock-based compensation expense	\$ 8,807	\$ 9,934	\$ 26,463	\$ 29,155

Stock-based compensation expense is reflected in cost of revenue and the functional lines within operating expenses. No stock-based compensation costs were capitalized during the three and nine months ended September 30, 2012 and 2011.

We granted stock-based awards as follows:

(In thousands, except per share amounts)	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Service-based restricted stock units	179	\$ 10.50	3,055	\$ 11.78
Service-based restricted stock units with a performance condition	90	\$ 10.50	1,189	\$ 13.20
Deferred stock units	3	\$ 10.72	155	\$ 11.08
	272	\$ 10.51	4,399	\$ 12.14

**Stock Repurchases**

In April 2011, our Board of Directors approved a stock repurchase program under which we may purchase up to \$200 million of our common stock over three years expiring on May 9, 2014 or such earlier time that the total dollar amount authorized by these resolutions has been used. In April 2012, our Board of Directors approved the repurchase of an additional \$200 million bringing the total repurchase authorization to \$400 million. Any share repurchases may be made through open market transactions, block trades, privately negotiated transactions (including accelerated share repurchase transactions) or other means. Any repurchase activity will depend on factors such as our working capital needs, cash requirements for investments, debt repayment obligations, our stock price, and economic and market conditions. Our stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

During the nine months ended September 30, 2012, we repurchased approximately 21 million shares of our common stock for approximately \$226 million pursuant to this stock repurchase program. The average price paid per share was \$10.89. As of September 30, 2012, the amount available for repurchase of common stock under this program was approximately \$123 million.

**Net Share-settlements**

Beginning in 2011, upon vesting, restricted stock units and awards are generally net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock. The majority of restricted stock units and awards that have vested in 2012 were net-share settled such that we withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes and remitted the cash to the appropriate taxing authorities. The total shares withheld were 303 thousand for the nine months ended September 30, 2012, and were based on the value of the restricted stock units and awards on their vesting date as determined by our closing stock price. Total payments for the employees' tax obligations to the taxing authorities are reflected as

a financing activity within the consolidated statements of cash flows. These net-share settlements had the effect of share repurchases by us as they reduced the number of shares that would have otherwise been issued as a result of the vesting.

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***Stockholder Rights Plan***

The Company is authorized to issue up to 1 million shares of preferred stock, of which 349 thousand shares have been designated as Series A Junior Participating Preferred Stock in connection with the adoption of a rights agreement discussed below. As of September 30, 2012 and December 31, 2011, no shares of preferred stock were issued or outstanding.

On May 5, 2012, our Board of Directors adopted a stockholder rights plan ( Rights Plan ) and declared a dividend distribution of one right (each, a Right ) for each outstanding share of the Company s common stock to stockholders of record at the close of business on May 17, 2012. Each Right entitles its holder, under certain circumstances, to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock of the Company at an exercise price of \$45.00 per Right, subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement, dated as of May 7, 2012 (the Rights Agreement ), between the Company and Computershare Shareowner Services LLC, as Rights agent.

Under the terms of the Rights Plan, the Rights will be exercisable if a person or group, without Board approval, acquires 10% or more of Allscripts common stock (including in the form of synthetic ownership through derivative positions) or announces a tender offer which would result in the ownership of 10% or more of Allscripts common stock. The Rights will trade with Allscripts common stock, unless and until they are separated upon the occurrence of certain future events. Under certain circumstances (including the acquisition by a person or group of 10% or more of Allscripts common stock), the Rights will entitle the holders to buy shares of Allscripts common stock at a 50% discount. Allscripts Board generally may redeem the Rights prior to the tenth day following the first public announcement of the acquisition by a person or group of 10% or more of the common stock.

The Rights Plan exempts any person or group owning 10% or more of Allscripts common stock immediately prior to the first public announcement of the Rights Plan. However, the Rights also will be exercisable if a person or group that already owns 10% or more of the common stock acquires any additional shares (including through derivatives). The Rights Plan will expire on May 6, 2013.

**Table of Contents****4. Earnings Per Share**

Basic income per share is computed by dividing 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 of stock options and restricted stock unit awards using the treasury stock method.

The calculations of earnings per share are as follows:

(In thousands, except per share amounts)	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
<b>Basic Earnings per Common Share:</b>				
Net income	\$ 9,375	\$ 19,137	\$ 23,169	\$ 47,626
Net income available to common shareholders	\$ 9,375	\$ 19,137	\$ 23,169	\$ 47,626
Weighted average common shares outstanding	170,874	188,330	181,156	189,110
<b>Basic Earnings per Common Share</b>	<b>\$ 0.05</b>	<b>\$ 0.10</b>	<b>\$ 0.13</b>	<b>\$ 0.25</b>
<b>Earnings per Common Share Assuming Dilution:</b>				
Net income	\$ 9,375	\$ 19,137	\$ 23,169	\$ 47,626
Net income available to common shareholders	\$ 9,375	\$ 19,137	\$ 23,169	\$ 47,626
Weighted average common shares outstanding	170,874	188,330	181,156	189,110
Dilutive effect of stock options and restricted stock units and awards	1,880	3,142	1,835	2,907
<b>Weighted average common shares outstanding assuming dilution</b>	<b>172,754</b>	<b>191,472</b>	<b>182,991</b>	<b>192,017</b>
<b>Earnings per Common Share Assuming Dilution</b>	<b>\$ 0.05</b>	<b>\$ 0.10</b>	<b>\$ 0.13</b>	<b>\$ 0.25</b>

The following stock options and share awards are not included in the computation of diluted earnings per share as the effect of including such stock options and share awards in the computation would be anti-dilutive:

(In thousands)	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
Shares subject to anti-dilutive stock options and share awards excluded from calculation	2,340	326	1,182	800

**Table of Contents****5. Goodwill and Intangible Assets**

Goodwill and intangible assets consist of the following:

(In thousands)	September 30, 2012			December 31, 2011		
	Gross Assets	Accumulated Amortization	Intangible Assets, Net	Gross Assets	Accumulated Amortization	Intangible Assets, Net
<b>Intangibles subject to amortization</b>						
Proprietary technology	\$ 361,660	(\$ 190,576)	\$ 171,084	\$ 361,660	(\$ 170,157)	\$ 191,503
Customer contracts and relationships	534,355	(315,058)	219,297	534,355	(288,010)	246,345
Total	\$ 896,015	(\$ 505,634)	\$ 390,381	\$ 896,015	(\$ 458,167)	\$ 437,848
<b>Intangibles not subject to amortization</b>						
Registered trademarks			\$ 52,000			\$ 52,000
Goodwill			1,039,364			1,039,364
Total			\$ 1,091,364			\$ 1,091,364

In connection with the integration of the Eclipsys operations, we recently realigned certain functions within our business. After the realignment and based upon the information used by our chief operating decision maker for making operating decisions and assessing performance, we identified the following operating segments: Software Delivery, Services Delivery, Client Support, Pathway Solutions, IT Outsourcing, and Remote Hosting. In reviewing these operating segments for goodwill reporting purposes, we determined that our operating segments are consistent with our reporting units. As a result of the business realignment, we will be required to perform our annual goodwill impairment test, which is the first day of the fiscal fourth quarter, based on the new reporting units. Refer to Note 11 Business Segments for additional information on our operating and reportable segments.

**Table of Contents****6. Asset Impairment Charges**

On October 3, 2012, in order to better serve our clients and the healthcare market, we publicly announced a plan to standardize our small office electronic health record and practice management systems. As part of this plan, we will converge, over time, our MyWay Electronic Health Record System ( MyWay ) and Professional Suite Electronic Health Record System.

We plan to upgrade MyWay clients electing to migrate to the converged platform between January 2013 and September 2013, at no additional cost to the MyWay clients. The upgrade will position MyWay clients for Meaningful Use Stage 2 and ICD-10 compliance, and prepare them for the shift to value-based care that focuses on costs, quality and outcomes. MyWay clients not electing to upgrade will continue to have use of the application.

As a result of the above decision and the related elimination of future cash flows from sales of the MyWay application, we recorded a non-cash charge to earnings in the quarter ended September 30, 2012 related to the impairment of previously capitalized software development costs for MyWay plus the net carrying value of a perpetual license for certain software code incorporated in MyWay as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Asset impairment charges	\$ 11,101	\$ 0	\$ 11,101	\$ 0

**Table of Contents****7. Debt**

Debt outstanding consisted of the following:

(In thousands)	September 30, 2012	December 31, 2011
Senior Secured Credit Facilities (long-term portion)	\$ 386,793	\$ 322,664
Senior Secured Credit Facilities (current portion)	72,289	44,677
<b>Total debt</b>	<b>\$ 459,082</b>	<b>\$ 367,341</b>

Interest expense consisted of the following:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest expense	\$ 2,432	\$ 2,981	\$ 8,125	\$ 10,801
Debt cost amortization	1,286	765	3,805	3,982
Write off of unamortized deferred debt issuance costs	0	0	0	1,940
<b>Total interest expense</b>	<b>\$ 3,718</b>	<b>\$ 3,746</b>	<b>\$ 11,930</b>	<b>\$ 16,723</b>

**Table of Contents****Credit Facility**

On June 11, 2012, we entered into an Incremental Assumption Agreement (the *Agreement*) with J. P. Morgan Securities LLC, Mizuho Corporate Bank, LTD., SunTrust Robinson Humphrey, Inc. and other participating lenders to borrow additional amounts under our existing Amended and Restated Credit Agreement (the *Credit Agreement*) in the form of a new incremental term loan. Proceeds from the incremental term loan of \$150 million were used to partially refinance the \$175 million outstanding under our revolving credit facility, which is provided for in the Credit Agreement. We also made a voluntary repayment of the revolver totaling \$20 million at the time of the refinancing. The interest rate charged, debt covenants and other terms that apply to the term loan are defined by the terms of the Credit Agreement. We incurred debt issuance costs totaling \$1 million related to the incremental term loan, which were deferred and included within other assets on the balance sheet. Quarterly principal payments on the incremental term loan commenced on September 30, 2012.

The following table summarizes our future payments under the senior secured credit facilities including the incremental term loan as of September 30, 2012:

<b>(Dollar amounts in thousands)</b>	<b>Principal Payments</b>
Remaining payments due in 2012	\$ 17,616
Payments due in 2013	78,770
Payments due in 2014	104,698
Payments due in 2015	199,395
Payments due in 2016	58,603
Thereafter	0
	459,082
Senior Secured Credit Facilities (current portion)	72,289
	\$ 386,793

As of September 30, 2012, \$459 million in term loans, \$0 million under the revolving credit facility, and \$1 million in letters of credit were outstanding under the Credit Agreement. As of September 30, 2012, the interest rate on the senior secured credit facilities was LIBOR plus 2.00%, which totaled 2.22%. Refer to Note 9 for a discussion of our interest rate swap agreement. There was no default under the Credit Agreement as of September 30, 2012. Unamortized deferred debt issuance costs totaled \$12 million, and are included within other assets on the balance sheet at September 30, 2012.

As of September 30, 2012, we had \$249 million available, net of outstanding letters of credit, under our revolving credit facility. There can be no assurance that we will be able to draw on the full available balance of our Credit Agreement if the financial institutions that have extended such credit commitments become unwilling or unable to fund such borrowings.

**Table of Contents****8. Income Taxes**

The provision for income taxes reflects our estimate of the effective tax rate expected to be applicable for the full year. To the extent that actual pre-tax results for the year differ from the forecasted estimates applied at the end of the most recent interim period, the actual tax rate recognized during calendar 2012 could be different from the forecast rate. Our provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to income attributable to foreign jurisdictions taxed at lower rates, state taxes, permanent differences and certain discrete items. The effective tax rates were as follows:

(Dollar amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(Loss) income before income taxes	(\$ 10,379)	\$ 31,046	\$ 12,638	\$ 75,376
Benefit (provision) for income taxes	\$ 19,754	(\$ 11,909)	\$ 10,531	(\$ 27,750)
Effective tax rate	190.3%	38.4%	(83.3%)	36.8%

As of December 31, 2011, we had accrued approximately \$29 million related to uncertain tax positions resulting from the Framework Agreement with Misys plc ( Misys ) dated June 9, 2010, which was subsequently amended on July 26, 2010. Pursuant to the Framework Agreement, Allscripts and Misys agreed to reduce Misys' existing indirect ownership interest in Allscripts through a series of transactions which are referred to as the Coniston Transactions. The acquired tax position related to the Coniston Transactions was indemnified by Misys in accordance with the Framework Agreement. Accordingly, we had an indemnification asset totaling \$29 million, including related interest, which is included in other assets in the accompanying consolidated balance sheet as of December 31, 2011.

During the three months ended September 30, 2012, we settled an IRS examination for the period May 2007 through May 2010 which primarily resulted in a tax assessment of \$13 million that is indemnified by Misys pursuant to the Framework Agreement. The remaining tax liability related to the Coniston Transactions totaling \$16 million was reversed, as reflected in the table below, and recognized as a tax benefit in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2012.

Since the settlement amount with the IRS was less than the carrying value of the related indemnification asset, we recorded a write-off of the remaining indemnification asset, which is included in interest income and other (expense), net within the accompanying consolidated statements of operations. The resulting charge of \$16 million is substantially non-deductible for tax purposes and therefore increases the effective tax rate for the entire year.

Excluding the effects of these items, our effective tax rate for the three and nine months ended September 30, 2012 is lower compared to the prior year due to a higher mix of foreign income taxed at lower rates and lower state tax expense.

We file income tax returns in the U.S. federal jurisdiction, numerous states and multiple international countries. We are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. A change in the assessment of the outcomes of such matters could materially impact our consolidated financial statements.

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The following table reconciles unrecognized tax benefits:

<b>(In thousands)</b>	<b>Nine Months Ended September 30, 2012</b>	<b>Year Ended December 31, 2011</b>
Beginning balance at January 1, 2012 and 2011, respectively	\$ 43,284	\$ 42,840
Increases for tax positions related to the current year	35	719
Decreases for tax positions related to prior years	(13,945)	0
Increases for tax positions related to prior years	495	282
Decreases relating to settlements with taxing authorities	(11,925)	0
Foreign currency translation	191	(215)
Reductions due to lapsed statute of limitations	0	(342)
Ending balance at September 30, 2012 and December 31, 2011, respectively	\$ 18,135	\$ 43,284

If any portion of our unrecognized tax benefits is recognized, the entire amount would impact our effective tax rate. Although the results and timing of the resolution of income tax audits is highly uncertain, we believe it is reasonably possible that approximately \$5 million of gross unrecognized tax benefits will change in the next 12 months due to resolution of transfer pricing positions with various taxing authorities. We report interest and penalties related to uncertain income tax positions in the provision for income taxes line of our consolidated statements of operations.

We recognized interest and penalties related to uncertain tax positions in our consolidated statements of operations as follows:

<b>(In thousands)</b>	<b>Nine Months Ended September 30, 2012</b>	<b>Year Ended December 31, 2011</b>
Interest and penalties included in provision for income taxes	(\$ 2,499)	\$ 1,174

The amount of interest and penalties included in our consolidated balance sheets is as follows:

<b>(In thousands)</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Interest and penalties included in the liability for uncertain income taxes	\$ 2,239	\$ 4,737

**Table of Contents****9. Derivative Financial Instruments*****Interest Rate Swap Agreement***

We entered into an interest rate swap agreement with an effective date of October 29, 2010 that has the economic effect of modifying the variable rate component of the interest obligations associated with a portion of our original variable rate term loan. The initial notional amount of the interest rate swap agreement is \$300 million, with scheduled step downs in the future, and a final termination date of October 31, 2014. The interest rate swap agreement converts the one-month LIBOR rate on the corresponding notional amount of debt to an effective fixed rate of 0.896% (exclusive of the applicable margin currently charged under the Senior Secured Credit Facilities). The critical terms of the interest rate swap agreement and the related debt agreement match and allow us to designate the interest rate swap agreement as a highly effective cash flow hedge under GAAP. The interest rate swap agreement protects us against changes in interest payments due to benchmark interest rate movements. The change in fair value of this interest rate swap agreement is recognized in other comprehensive income with the corresponding amounts included in other assets or other liabilities in our consolidated balance sheet. Amounts accumulated in other comprehensive income are indirectly recognized in earnings as periodic settlements of the swap occur and the fair value of the swap declines to zero.

The interest rate swap agreement is currently our only derivative instrument and it is not used for trading purposes. Allscripts has not entered into any foreign currency hedging contracts. In the future we may enter into foreign currency exchange contracts to offset certain operational exposures from the impact of changes in foreign exchange rates.

The fair value of the derivative instrument was as follows:

(In thousands)	September 30, 2012	December 31, 2011
Fair value of interest rate swap agreement	(\$ 1,922)	(\$ 1,754)

We recognized the following activity related to our interest rate swap agreement:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Effective Portion</b>				
Loss recognized in OCI	(\$ 1)	(\$ 1,885)	(\$ 168)	(\$ 4,196)
Tax effect	(1)	738	65	1,635
Net	(\$ 2)	(\$ 1,147)	(\$ 103)	(\$ 2,561)
<b>Loss reclassified from OCI to interest expense</b>	\$ 432	\$ 535	\$ 1,376	\$ 1,528
<b>Amount excluded from Effectiveness Assessment and Ineffective Portion</b>				
Gain (loss) recognized in other income (expense)	\$ 0	\$ 0	\$ 0	\$ 0

We estimate that approximately \$1 million of derivative losses included in other comprehensive income ( OCI ) will be reclassified into earnings within the next 12 months. This amount has been calculated assuming the variable effective interest rate 2.22% as of September 30, 2012 remains the same through the next 12 months. No gains (losses) were reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the three and nine months ended September 30, 2012 and 2011. We held no other derivative instruments during the three and nine months ended September 30, 2012 and 2011.

There were no realized gains (losses) on derivatives other than those related to the periodic settlement of the swap.

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**Table of Contents****10. Contingencies**

On August 4, 2009, a lawsuit was filed in the United States District Court for the Northern District of Illinois against the Company, Glen Tullman and William Davis by the Plumbers and Pipefitters Local Union No. 630 Pension-Annuity Trust Fund on behalf of a purported class consisting of stockholders who purchased Allscripts common stock between May 8, 2007 and February 13, 2008. On October 13, 2009, David Robb was appointed lead plaintiff, and on November 25, 2009, an amended complaint was filed containing allegations that the Company, Tullman and Davis made materially false and misleading statements and/or omissions in connection with the release of TouchWorks EHR, Version 11. On September 19, 2011, the Court entered an order certifying a class. On February 7, 2012, the parties agreed, subject to execution of settlement documents and Court approval, to settle this matter on a class-wide basis. The settlement amount totaling approximately \$10 million will be funded by the Company's directors' and officers' liability insurance carrier and therefore has no material impact on the Company's financial condition or results of operations. On March 16, 2012, the parties entered into a written settlement agreement and filed a motion with the Court for approval of the settlement. On July 13, 2012, the Court entered an order granting final approval of the settlement.

On February 11, 2011, Medical Services Associates, Inc. (MSA) filed binding arbitration against the Company alleging that the Company negligently caused a loss of medical billing data, negligently or intentionally misrepresented certain facts regarding the computer system being sold to MSA, and/or breached certain aspects of a contract to provide certain software-related goods and services to MSA. The Company filed its counterclaim on March 11, 2011. In June 2012, the parties and the Company's insurance carrier agreed in principle, subject to execution of settlement documentation, to settle this matter for an undisclosed amount that will be funded by the Company's insurance carrier and therefore it is not expected to have a material impact on the Company's financial condition or results of operations. In October 2012, the parties entered into a written settlement agreement and the Company's insurance carrier issued payment of the settlement amount.

On September 14, 2010, Pegasus Imaging Corporation (Pegasus) filed a lawsuit against the Company and AllscriptsMisys, LLC in the Circuit Court of the Thirteenth Judicial Circuit of the State of Florida in and for Hillsborough County, Florida. The lawsuit also named former officers Jeffrey Amrein and John Reinhart as defendants. Prior to serving the complaint, Pegasus filed an amended complaint dropping two of the claims that had been asserted and adding two additional defendants, which are two now-defunct Florida corporations that formerly did business with the Company. The amended complaint asserts causes of action against defendants for fraudulent misrepresentations, negligent misrepresentations, and deceptive and unfair trade practices under Florida law, arising from previous business dealings between Pegasus and Advanced Imaging Concepts, Inc., a software company based in Louisville, Kentucky that the Company purchased in August 2003. On or about November 1, 2010, Defendants moved to transfer the case to the special court for complex business litigation that resides in Hillsborough County, Florida. The Florida Business Court granted Defendants' motion for transfer on January 13, 2011. The Defendants have answered the complaint and filed counterclaims against the Plaintiff alleging breach of license, breach of warranty, and breach of contract. On April 30, 2012, Plaintiff filed a motion seeking leave to amend its Complaint to add a claim alleging breach of a click-through license agreement and punitive damages. The Company has also recently moved for leave to amend its counterclaims to add a claim for negligent misrepresentations. Discovery in this matter is ongoing. The case is currently expected to be set for trial in July of 2013. The Company intends to continue to defend this matter vigorously. We believe that we have strong defensive positions in such matter, but the outcomes of intellectual property lawsuits are often uncertain.

In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to the above matters. However, the outcome of the foregoing litigation is inherently uncertain, and we may incur substantial defense costs and expenses. Therefore, if these legal matters were resolved against the Company for an amount in excess of management's expectations, the Company's consolidated financial statements of a particular reporting period could be materially adversely affected.

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On December 22, 2011, in connection with a federal grand jury investigation of third parties, we received a subpoena requesting that we provide documents regarding Allscripts' interactions with several healthcare and educational organizations. At this time, we are unable to determine the impact of the foregoing on Allscripts. We are cooperating with the United States Attorney's Office in connection with such subpoena.

On May 1, 2012, Physicians Healthsource, Inc. ( "PHI" ) filed a class action Complaint in U.S. District Court for the Northern District of Illinois against the Company. The Complaint alleges that on multiple occasions between July 2008 and December 2011, Allscripts or its agent sent advertisements by fax to the Plaintiff and a class of similarly situated persons, without first receiving the recipients' express permission or invitation in violation of the Telephone Consumer Protection Act, 47 U.S.C. § 227 ( "TCPA" ). The Complaint seeks \$500 for each alleged violation of the TCPA, treble damages if the Court finds the violations to be willful, knowing or intentional, and injunctive and other relief. Allscripts was served with the Complaint and PHI's Motion for Class Certification on May 7, 2012 and the Company responded by filing a Motion to Dismiss, which was denied but the Court requested that Allscripts file a second Motion to Dismiss. Discovery in this matter has been stayed pending a decision of the 7th Circuit Court of Appeals in the case of Holtzman v. Turza, which involves issues raised in the Company's Second Motion to Dismiss. The Company has also filed a Motion requesting denial of PHI's Motion for Class certification. The Company intends to vigorously defend against these claims.

On May 2, 2012, a lawsuit was filed in the United States District Court for the Northern District of Illinois against the Company, Glen Tullman and William Davis, the former Chief Financial Officer of the Company, by the Bristol County Retirement System for itself and on behalf of a purported class consisting of stockholders who purchased Allscripts common stock between November 18, 2010 and April 26, 2012. The Complaint alleges that the Company, Mr. Tullman and Mr. Davis made materially false and misleading statements and/or omissions during the putative class period regarding the Company's progress in integrating Allscripts' and Eclipsys' business following the August 24, 2010 merger and that the Company lacked a reasonable basis for certain statements regarding the Company's post-merger integration efforts, operations, results and projections of future financial performance. Two groups of plaintiffs have filed motions for appointment as lead plaintiff and for appointment as lead plaintiff's counsel. These motions were fully briefed as of July 31, 2012. Defendants' time to answer or otherwise plead is stayed pending appointment of lead plaintiff and lead plaintiffs' counsel. The Company intends to vigorously defend against these claims.

On June 27, 2012, a purported shareholder, Richard Devereaux, filed a shareholder derivative action in the Circuit Court of Cook County Illinois against Glen Tullman, William Davis, Paul Black, Dennis Chookaszian, Robert Cindrich, Marcel Gamache, Philip Green, Michael Kluger, and Allscripts as nominal defendant. The suit alleges breach of fiduciary duties and unjust enrichment against former and current executives of Allscripts who allegedly made misleading claims about the Company's business and financial state, causing its stock prices to be artificially inflated and then drop sharply when the Company reported earnings below expectations and disclosed a leadership dispute in an SEC filing. At present, the Company's time to respond to the complaint is tolled pending the filing of an amended complaint in the Bristol County Retirement System case.

In the opinion of management, there is a reasonable possibility the Company may incur losses with respect to the three matters immediately above. However, given the current early stage of the matters, it is not possible to estimate the possible loss or range of loss at this time. We will continue to evaluate the potential exposure related to these matters in future periods.

In addition to commitments and obligations in the ordinary course of business, we are subject to various claims, other pending and potential legal actions for damages and other matters arising in the normal conduct of our business, including intellectual property infringement, misappropriation or other intellectual property violation claims.

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

Prior to 2012, we utilized three reportable segments: Clinical Solutions, Hospital Solutions, and Health Solutions. In connection with the integration of the Eclipsys operations, we recently realigned certain functions within our business. This realignment included the integration of our sales and services functions in the first quarter of 2012 as well as our solutions research and development team. After the realignment and based upon the information used by the chief operating decision maker to allocate resources, make operating decisions and assess performance, we now use the following reportable segments: Software Delivery, Services Delivery, Client Support, Pathway Solutions and IT Outsourcing. Pathway Solutions and IT Outsourcing, which were reported under the Managed Services segment in the first quarter of 2012, are now separately presented consistent with changes in our internal reporting to our chief operating decision maker.

Software delivery primarily includes revenue from system solutions, which is comprised of software license fees and hardware revenue, and recurring revenue from SaaS contracts and other subscription-based arrangements, which are included in transaction processing and other, and the related expenses incurred to deliver these solutions to our clients. Services delivery derives its revenue through implementation, training and other professional services provided to clients and includes the related expenses incurred to provide these services. Client support derives its revenue through software and hardware maintenance contracts and includes the related expenses incurred to provide support to our customers. Pathway solutions includes revenue and the related expenses incurred from EDI medical claims processing for clients and our patient portal SaaS solution, and IT outsourcing derives its revenue from services provided to clients where we assume partial to total responsibility for a healthcare organization's IT operations using our employees and assets, and includes the related expenses incurred to deliver IT outsourcing solutions to our clients. Segment data for 2011 presented below has been restated to conform to the current presentation.

Our chief operating decision maker uses segment revenues and income from operations as measures of performance and to allocate resources. In determining revenue and income from operations for our segments, we do not include the amortization of acquisition-related deferred revenue adjustments in revenue and we exclude amortization of intangible assets and stock-based compensation expense from the operating expense segment data provided to our chief operating decision maker. Accordingly, these amounts are not included in our reportable segment results and are included in the unallocated amounts within All Other.

Corporate general and administrative expenses are centrally managed and solutions research and development expenses, including the amortization of software development costs, are not attributed to an operating segment. Additionally, during the three months ended September 30, 2012, we recorded certain asset impairment charges related to the convergence of our MyWay and Professional applications (refer to Note 6 Asset Impairment Charges for additional information) that are not attributable to an operating segment. As a result, these expenses are not allocated to our reportable segments because they are not part of the segment profitability results reviewed by our chief operating decision maker. Additionally, we do not track our assets by segment.

Remote Hosting is an operating segment that does not meet the quantitative thresholds for determining reportable segments; however, we have presented the revenues and income from operations related to this segment within our reconciliation to consolidated amounts in the table below.

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Revenue:</b>				
Software Delivery	\$ 77,229	\$ 95,751	\$ 244,773	\$ 283,275
Services Delivery	62,462	64,080	197,669	177,805
Client Support	118,315	113,142	353,674	332,009
Pathway Solutions	42,796	41,296	130,117	124,301
IT Outsourcing	41,261	33,733	119,262	100,855
All Other				
Remote Hosting	17,854	18,151	52,790	52,235
Unallocated Amounts	777	(2,417)	(2,923)	(14,605)
Total All Other	18,631	15,734	49,867	37,630
<b>Total revenue</b>	<b>\$ 360,694</b>	<b>\$ 363,736</b>	<b>\$ 1,095,362</b>	<b>\$ 1,055,875</b>
<b>Income from operations:</b>				
Software Delivery	\$ 9,223	\$ 19,935	\$ 34,296	\$ 62,332

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Services Delivery	8,390	7,088	26,033	24,675
Client Support	81,143	78,973	242,828	228,466
Pathway Solutions	26,118	25,859	79,719	79,620
IT Outsourcing	8,978	6,145	25,298	19,639
All Other				
Remote Hosting	668	652	1,146	3,411
Unallocated Amounts	(125,336)	(104,285)	(369,449)	(327,228)
<b>Total All Other</b>	<b>(124,668)</b>	<b>(103,633)</b>	<b>(368,303)</b>	<b>(323,817)</b>
Total income from operations	\$ 9,184	\$ 34,367	\$ 39,871	\$ 90,915

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

#### ***Business Overview***

Allscripts is a leading provider of clinical, financial, connectivity and information solutions and related professional services that empower hospitals, physicians and post-acute organizations, such as nursing homes, to deliver world-class outcomes. We deliver innovative solutions that provide healthcare professionals with the information, insights and connectivity required to transform healthcare by improving the quality and efficiency of patient care.

We primarily derive our revenue from sales of our proprietary software and related hardware, professional services and IT outsourcing services. These sales also are the basis for our recurring service contracts for software maintenance and certain transaction processing services. Prior to this year, we used three reportable segments: Clinical Solutions, Hospital Solutions, and Health Solutions. In connection with the integration of the Eclipsys operations, in 2012 we realigned certain functions within our business. This realignment included the integration of our sales and services functions in the first quarter of 2012 as well as our solutions research and development team. After the realignment and based on the information used by management for making operating decisions and assessing performance, we identified the following reportable segments: Software Delivery, Services Delivery, Client Support, Pathway Solutions and IT Outsourcing.

We believe that the HITECH Act and other provisions provided by the American Recovery and Reinvestment Act (ARRA) will continue to be one of the biggest drivers of healthcare IT adoption in 2012. Management believes that to date the HITECH program has resulted in additional related new orders for all of our Electronic Health Record ( EHR ) products. Large physician groups will continue to purchase EHR technology; however, the number of very large practices with over 100 physicians that have not yet acquired such technology is decreasing. Such practices may choose to replace older EHR technology in the future as meaningful use regulatory requirements and business realities dictate the need for updates and upgrades, as well as additional features and functionality.

We believe small- and medium-sized physician practices (those with three or fewer physicians, and four to 40 physicians, respectively) are increasingly adopting technology driven by a variety of factors, including a desire to maximize federal incentive payments, align with local hospitals, and merge with other practices, as well as other drivers. These offices typically require less time to implement and train than larger offices, so the need to plan implementations well in advance is not as critical as in larger physician organizations.

We have also seen an evolution of buying decisions toward an increase in local community-based buying activity whereby individual hospitals, health systems and integrated delivery networks are subsidizing the purchase of EHR licenses or related services for local, affiliated physicians and across their employed physician base as part of an offer to leverage buying power and help those practices take advantage of the HITECH incentives. This activity has also resulted in a pull-through effect where smaller practices affiliated with a community hospital are incited to participate in the incentive program while the subsidizing health system expands connectivity within the local provider community. This pull-through effect has resulted in new orders for Allscripts Professional EHR targeting small- and mid-sized physician practices. Management believes that the focus on new orders driven by the HITECH program and related to EHR and community-based activity will continue to expand as physicians seek to qualify for the HITECH incentives for the first time or upgrade in advance of the start of Stage 2 of the program. The associated challenge we face is to successfully position, sell, implement and support our products to the hospital, health system or integrated delivery network that is subsidizing its affiliated physicians.

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The vast majority of our acute care and ambulatory customers continue to focus on achieving meaningful use under HITECH. As a result, during the remainder of 2012, much of our professional services deployment capacity will be consumed by demand from our customers who wish to upgrade to the most current releases of our EHR products which are certified as meeting meaningful use requirements, as well as those requesting implementation of any additional modules required to achieve meaningful use. Our professional services margins could be impacted as we continue to supplement our staff with third-party resources to help meet the demand. We expect this trend to continue into the near future as customers react to the finalized requirements for meaningful use Stage 2.

Although we believe that we have taken and continue to take the proper steps to take advantage of the opportunity presented by HITECH, given the effects the law is having on our customers, there can be no assurance that it will continue to result in significant new orders for us in the near term, and if it does, that we will have the capacity to meet the additional market demand in a timely fashion.

Allscripts today provides one of the most comprehensive solution offerings for healthcare organizations of every size and setting. By combining physician-office and post-acute care solutions with enterprise solutions for hospitals and health systems, we offer a unified portfolio of clinical, financial, connectivity and information solutions.

Given the breadth of our solutions portfolio and customer types, we are uniquely positioned to connect physicians, other care providers and patients across all health care provider settings including hospitals, small or large physician practices, post-acute care facilities, or in a home care setting. We continue to compete for net-new opportunities among community hospitals and health systems that are looking to one information technology vendor to provide a single, end-to-end solution across all points of care. We believe our leading market share in the ambulatory space, in particular, gives us a competitive advantage in this regard as hospitals and health systems increasingly seek to leverage the EHR to build referring relationships with independent physicians across the communities they serve.

Additionally, recently enacted public laws reforming the U.S. healthcare system may have an impact on our business. The Patient Protection and Affordable Care Act (H.R. 3590; Public Law 111-148) ( PPACA ) and The Health Care and Education and Reconciliation Act of 2010 (H.R. 4872) (the Reconciliation Act ), which amends the PPACA (collectively the Health Reform Laws ), were signed into law in March 2010. The Health Reform Laws contain various provisions which may impact the Company and our customers. Some of these provisions (including Accountable Care Organizations and the Comprehensive Primary Care Initiative) may have a positive impact by requiring the expanded use of electronic health records and analytics tools to participate in certain federal programs, for example, while others, such as those mandating reductions in reimbursement for certain types of providers, may have a negative impact by reducing the resources available to purchase our products. Increases in fraud and abuse enforcement and penalties may also adversely affect participants in the healthcare sector, including the Company. Additionally, conversations continue in Congress around the Medicare Sustainable Growth Rate reimbursement model and possible replacement payment methodologies, some of which would further encourage the adoption of health information technology in order to satisfy possible new requirements tying the report of quality measurements to the receipt of payment through Medicare but which also currently raise ambiguity among physician populations and healthcare organizations.

Such payment and delivery system reform programs as have been launched related to the Medicare program are also increasingly being rolled out at the state level through Medicaid administrators, as well as through the private sector, presenting additional opportunity for us to provide software and services to our clients who participate.

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### **Critical Accounting Policies and Estimates**

There were no material changes to our critical accounting policies and estimates as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

### ***Third Quarter 2012 Summary***

Bookings, which reflect the value of executed contracts for our solutions, totaled \$162 million for the third quarter which is lower compared with our second quarter bookings of \$194 million and the prior year bookings of \$267 million. Our current quarter results were impacted by clients who delayed decisions due to speculation about Allscripts' future corporate autonomy, and also by clients who continued to delay purchase decisions as they wait for new product releases.

Revenue decreased slightly to \$361 million compared with \$364 million in the prior year. Increases in maintenance and transaction processing and other revenue categories were offset by decreases in system sales and professional services as we experienced a decline in orders as we continue our efforts to improve product performance and delivery execution. Revenue decreased compared with 2012 second quarter revenue of \$370 million. Sequentially we realized an \$8 million decrease in system sales and a \$5 million decrease in professional services revenue as meaningful use upgrade services decline. These decreases offset an increase in maintenance revenue.

We generated operating cash flows of approximately \$31 million in the third quarter which compares with \$42 million in the prior year.

Gross research and development spending increased significantly compared with the prior year. We remain on track for approximately \$190 million of gross research and development spending in 2012 and the release of several important upgrades, product enhancements and innovative solutions.

In order to better serve our clients and the healthcare market, in October 2012 we publicly announced a plan to standardize our small office electronic health record and practice management systems. As part of this plan, we will converge, over time, our MyWay Electronic Health Record System ( MyWay ) and Professional Suite Electronic Health Record System.

We plan to upgrade MyWay clients electing to migrate to the converged platform between January 2013 and September 2013, at no additional cost to the MyWay clients. The upgrade will position MyWay clients for Meaningful Use Stage 2 and ICD-10 compliance, and prepare them for the shift to value-based care that focuses on costs, quality and outcomes. MyWay clients not electing to upgrade will continue to have use of the application.

As a result of the above decision and the related elimination of future cash flows from sales of the MyWay application, we recorded a non-cash charge to earnings in the quarter ended September 30, 2012 related to the impairment of previously capitalized software development costs for MyWay plus the net carrying value of a perpetual license for certain software code incorporated in MyWay totaling \$11 million, on a pre-tax basis. Additional non-recurring period costs will be incurred in future quarters to upgrade the MyWay clients that elect to upgrade. The incremental period costs will be partially offset by cost savings we expect to realize through lower development and support costs. The amount of such costs and anticipated savings are not determinable at this time and will ultimately be based on the number of clients electing to migrate.

Also impacting the financial statements for the third quarter is the settlement of an acquired tax position that was included in our liability for uncertain tax benefits prior to the current quarter. Pursuant to an agreement between Misys plc and Allscripts signed in 2010, Misys agreed to indemnify Allscripts against potential contingent tax liabilities for which it could be potentially liable, arising from Allscripts' purchase of Allscripts shares from Misys in 2010. During the three months ended September 30, 2012, we recognized a tax benefit of \$16 million related to the settlement of the acquired tax position for an amount less than the carrying value of the uncertain tax liability. Prior to this quarter, our consolidated balance sheet also included a tax indemnification asset related to the uncertain tax liability. Since the settlement amount was less than the carrying value of the indemnification asset, we recorded a write-off of the remaining indemnification asset, which is included in interest income and other (expense), net within the consolidated statement of operations. The resulting charge of \$16 million is substantially non-deductible for tax purposes and therefore increases our effective tax rate for the entire year.

On November 8, 2012, we confirmed that in light of the ongoing interest expressed in the Company by third parties, we are evaluating strategic alternatives. There can be no assurance that this process will result in any specific transaction. As stated above, our third quarter bookings were impacted by speculation about Allscripts' future corporate autonomy and the timing of new product releases. These factors are expected to also impact future bookings and results of operations.



**Table of Contents****Overview of Consolidated Results**

Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
<b>Revenue:</b>						
System sales	\$ 35,220	\$ 54,646	(35.5%)	\$ 116,176	\$ 165,420	(29.8%)
Professional services	62,749	65,275	(3.9%)	201,615	179,004	12.6%
Maintenance	119,263	113,244	5.3%	354,295	325,415	8.9%
Transaction processing and other	143,462	130,571	9.9%	423,276	386,036	9.6%
<b>Total revenue</b>	<b>360,694</b>	<b>363,736</b>	<b>(0.8%)</b>	<b>1,095,362</b>	<b>1,055,875</b>	<b>3.7%</b>
<b>Cost of revenue:</b>						
System sales	29,960	39,604	(24.4%)	96,608	110,420	(12.5%)
Professional services	54,534	56,305	(3.1%)	173,260	150,367	15.2%
Maintenance	36,564	32,840	11.3%	108,850	100,963	7.8%
Transaction processing and other	82,600	73,014	13.1%	246,441	204,507	20.5%
<b>Total cost of revenue</b>	<b>203,658</b>	<b>201,763</b>	<b>0.9%</b>	<b>625,159</b>	<b>566,257</b>	<b>10.4%</b>
<b>Gross profit</b>	<b>157,036</b>	<b>161,973</b>	<b>(3.0%)</b>	<b>470,203</b>	<b>489,618</b>	<b>(4.0%)</b>
% of Revenue	43.5%	44.5%		42.9%	46.4%	
Selling, general and administrative expenses	90,412	92,152	(1.9%)	280,020	297,832	(6.0%)
Research and development	37,802	26,032	45.2%	112,164	72,800	54.1%
Asset impairment charges	11,101	0	NM	11,101	0	NM
Amortization of intangible assets	8,537	9,422	(9.4%)	27,047	28,071	(3.6%)
<b>Income from operations</b>	<b>9,184</b>	<b>34,367</b>	<b>(73.3%)</b>	<b>39,871</b>	<b>90,915</b>	<b>(56.1%)</b>
Interest expense	(3,718)	(3,746)	(0.7%)	(11,930)	(16,723)	(28.7%)
Interest income and other (expense), net	(15,845)	425	NM	(15,303)	1,184	NM
<b>(Loss) income before income taxes</b>	<b>(10,379)</b>	<b>31,046</b>	<b>(133.4%)</b>	<b>12,638</b>	<b>75,376</b>	<b>(83.2%)</b>
Benefit (provision) for income taxes	19,754	(11,909)	(265.9%)	10,531	(27,750)	(137.9%)
<b>Effective tax rate</b>	<b>190.3%</b>	<b>38.4%</b>		<b>(83.3%)</b>	<b>36.8%</b>	
<b>Net income</b>	<b>\$ 9,375</b>	<b>\$ 19,137</b>	<b>(51.0%)</b>	<b>\$ 23,169</b>	<b>\$ 47,626</b>	<b>(51.4%)</b>

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**Table of Contents****Revenue**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
<b>Revenue:</b>						
System sales	\$ 35,220	\$ 54,646	(35.5%)	\$ 116,176	\$ 165,420	(29.8%)
Professional services	62,749	65,275	(3.9%)	201,615	179,004	12.6%
Maintenance	119,263	113,244	5.3%	354,295	325,415	8.9%
Transaction processing and other	143,462	130,571	9.9%	423,276	386,036	9.6%
<b>Total revenue</b>	<b>360,694</b>	<b>363,736</b>	<b>(0.8%)</b>	<b>1,095,362</b>	<b>1,055,875</b>	<b>3.7%</b>

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Total revenue decreased slightly during the three months ended September 30, 2012 compared with the prior year comparable period as increases in maintenance and transaction processing and other revenue were offset by decreases in system sales and professional services. Maintenance revenue increased primarily due to new system activations and the increase in transaction processing revenue is attributable to the expansion of IT Outsourcing services to our existing clients and growth in our client base. IT Outsourcing contributed \$8 million of the increase in transaction processing and other revenue in addition to increases in SaaS and hosting revenues as we expanded our customer base. Offsetting these increases in revenue is a decrease in system sales which consists of a \$12 million decrease in software revenue and an \$8 million decrease in hardware revenue attributable to a decline in orders as certain clients and prospects delayed purchase decisions due to speculation about Allscripts' future corporate autonomy and others continued to delay purchase decisions as they wait for new product releases. Additionally, we continue to experience a shift in sales to smaller physician practices which typically require less robust hardware solutions. Professional services revenue decreased compared with the prior year as a result of the decline in orders referenced above and a decrease in consulting services.

Total revenue increased during the nine months ended September 30, 2012 compared with the prior year as we realized increases in all revenue categories with the exception of system sales. The increase in professional services revenue was driven by increases in implementation and consulting services including the implementation of third-party solutions as compared with the prior year. On a year-to-date basis, orders for professional services have declined compared with the prior year which is reflected in the decline in professional services for the current quarter. Maintenance revenue increased primarily due to new system activations and the increase in transaction processing revenue is attributable to the expansion of IT Outsourcing services to our existing clients and growth in our client base. IT Outsourcing revenues contributed \$19 million of the increase in transaction processing and other revenue in addition to increases in SaaS and hosting revenues as we expanded our customer base. Partially offsetting these increases in revenue for the nine months ended September 30, 2012 is a decrease in system sales which consists of a \$31 million decrease in software revenue and a \$18 million decrease in hardware revenue as we experienced a decline in orders as discussed above. Additionally, we continue to experience a shift in sales to smaller physician practices which typically require less robust hardware solutions.

**Table of Contents****Gross Profit**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Total cost of revenue	203,658	201,763	0.9%	625,159	566,257	10.4%
Gross profit	157,036	161,973	(3.0%)	470,203	489,618	(4.0%)
% of Revenue	43.5%	44.5%		42.9%	46.4%	

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Gross profit decreased during the three months ended September 30, 2012 as we realized a decrease in revenues while costs of revenue increased primarily due to an increase in transaction processing and other costs as we added headcount and made infrastructure improvements in response to increased demand for our SaaS and hosting solutions. This increase and a \$3 million increase in the amortization of software development costs were partially offset by decreases in costs of revenue associated with lower system sales and professional services revenue. Gross profit as a percent of revenue declined compared with the prior year due primarily to a higher mix of third-party systems sales which carry lower gross margin, the increases in amortization of software development costs and transaction processing-related costs discussed above, and lower utilization of professional services resources.

Gross profit decreased during the nine months ended September 30, 2012 as the increase in total revenue was offset by an increase in costs of revenue compared with the prior year comparable period as we recognized a \$9 million increase in the amortization of software development costs and an increase in professional services cost of revenue primarily due to a higher mix of third-party systems sales that are more costly to implement, which offset an increase in professional services revenue. Gross profit was further impacted by an increase in transaction processing and other revenue that was offset by higher costs as we added headcount and made infrastructure improvements in response to increased demand for our SaaS and hosting solutions. Gross profit as a percent of revenue declined compared with the prior year due primarily to a higher mix of third-party systems sales which carry lower gross margin and the increases in amortization of software development costs, professional services costs and transaction processing-related costs.

**Table of Contents*****Selling, General and Administrative Expenses***

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Selling, general and administrative expenses	90,412	92,152	(1.9%)	280,020	297,832	(6.0%)

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Selling, general and administrative expenses during the three months ended September 30, 2012 were flat compared to the prior year. During the nine months ended September 30, 2012, selling, general and administrative expenses decreased compared with the prior year due to a decrease in expenses incurred relating to the Eclipsys Merger and other non-recurring costs and a decrease in people-related expenses. Partially offsetting these decreases is an increase in legal expenses related to general legal matters, including expenses related to addressing legal claims involving the Company.

***Research and Development***

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Research and development	\$ 37,802	\$ 26,032	45.2%	\$ 112,164	\$ 72,800	54.1%

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Research and development expenses increased in the three and nine months ended September 30, 2012 primarily due to an increase in people-related expenses as we increased headcount in order to accelerate development efforts to improve performance and accelerate product integration and innovation. Also contributing to the increase for the three and nine months ended September 30, 2012 is a decrease in the capitalization of software development costs as certain quality and efficiency development efforts were not eligible for capitalization.

***Asset Impairment Charges***

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Asset impairment charges	\$ 11,101	\$ 0	NM	\$ 11,101	\$ 0	NM

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

In October 2012, we publicly announced a plan to standardize our small office electronic health record and practice management systems and converge, over time, our MyWay application with our Professional Suite Electronic Health Record System. As a result of this decision and the related elimination of future cash flows from sales of the MyWay application, we recorded asset impairment charges during the three months ended September 30, 2012 related to the impairment of previously capitalized software development costs for our MyWay Electronic Health Record application plus the net carrying value of a perpetual license for certain software code incorporated in MyWay.

***Amortization of Intangible Assets***

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Amortization of intangible assets	\$ 8,537	\$ 9,422	(9.4%)	\$ 27,047	\$ 28,071	(3.6%)

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Amortization of intangible assets recognized during the three and nine months ended September 30, 2012 decreased compared with the prior year comparable periods as certain amortization periods ended and intangible asset amounts were fully amortized.



**Table of Contents****Interest Expense**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Interest expense	(\$3,718)	(\$3,746)	(0.7%)	(\$11,930)	(\$16,723)	(28.7%)

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Interest expense increased during the three months ended September 30, 2012 compared to the prior year due to increased debt outstanding associated with the incremental term loan executed in June 2012. Interest expense for the nine months ended September 30, 2012 is lower compared to the prior year due to lower average debt balances in 2012. Also, interest expense for the nine months ended September 30, 2011 includes the write-off of deferred debt issuance costs totaling \$2 million in connection with the execution of an amendment to our credit facility agreement.

**Interest Income and Other (Expense), Net**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Interest income and other (expense), net	(\$15,845)	\$425	NM	(\$15,303)	\$1,184	NM

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Interest income and other (expense), net for the three and nine months ended September 30, 2012 includes a \$16 million write-off of a tax indemnification asset due to the settlement of the related acquired tax position indemnified by Misys plc for an amount less than the carrying value of the indemnification asset.

**Provision for Income Taxes**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Benefit (provision) for income taxes	\$ 19,754	(\$ 11,909)	(265.9%)	\$ 10,531	(\$ 27,750)	(137.9%)
Effective tax rate	190.3%	38.4%		(83.3%)	36.8%	

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

The effective tax rate for the three and nine months ended September 30, 2012 includes a \$16 million tax benefit related to the settlement of an acquired tax position for an amount less than the carrying value of the uncertain tax liability. Accordingly, in the current quarter we recognized a tax benefit and decreased our liability for unrecognized tax benefits.

The acquired tax position referenced above was indemnified by Misys plc and a related tax indemnification asset was previously included within other assets in our consolidated balance sheet. Since the settlement amount was less than the carrying value of the indemnification asset, we recorded a write-off of the remaining indemnification asset, which is included in interest income and other within the consolidated statement of operations. The resulting charge of \$16 million is substantially non-deductible for tax purposes and therefore increases the effective tax rate for the entire year.

Excluding the effects of these items, our effective tax rate for the three and nine months ended September 30, 2012 is lower compared to the prior year due to a higher mix of foreign income taxed at lower rates and lower state tax expense.

**Table of Contents****Segment Operations***Overview of Segment Results*

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
<b>Revenue:</b>						
Software Delivery	\$ 77,229	\$ 95,751	(19.3%)	\$ 244,773	\$ 283,275	(13.6%)
Services Delivery	62,462	64,080	(2.5%)	197,669	177,805	11.2%
Client Support	118,315	113,142	4.6%	353,674	332,009	6.5%
Pathway Solutions	42,796	41,296	3.6%	130,117	124,301	4.7%
IT Outsourcing	41,261	33,733	22.3%	119,262	100,855	18.3%
<b>All Other</b>						
Remote Hosting	17,854	18,151	(1.6%)	52,790	52,235	1.1%
Unallocated Amounts	777	(2,417)	(132.1%)	(2,923)	(14,605)	(80.0%)
<b>Total All Other</b>	<b>18,631</b>	<b>15,734</b>	<b>18.4%</b>	<b>49,867</b>	<b>37,630</b>	<b>32.5%</b>
<b>Total revenue</b>	<b>\$ 360,694</b>	<b>\$ 363,736</b>	<b>(0.8%)</b>	<b>\$ 1,095,362</b>	<b>\$ 1,055,875</b>	<b>3.7%</b>
<b>Income from operations:</b>						
Software Delivery	\$ 9,223	\$ 19,935	(53.7%)	\$ 34,296	\$ 62,332	(45.0%)
Services Delivery	8,390	7,088	18.4%	26,033	24,675	5.5%
Client Support	81,143	78,973	2.7%	242,828	228,466	6.3%
Pathway Solutions	26,118	25,859	1.0%	79,719	79,620	0.1%
IT Outsourcing	8,978	6,145	46.1%	25,298	19,639	28.8%
<b>All Other</b>						
Remote Hosting	668	652	2.5%	1,146	3,411	(66.4%)
Unallocated Amounts	(125,336)	(104,285)	20.2%	(369,449)	(327,228)	12.9%
<b>Total All Other</b>	<b>(124,668)</b>	<b>(103,633)</b>	<b>20.3%</b>	<b>(368,303)</b>	<b>(323,817)</b>	<b>13.7%</b>
<b>Total income from operations</b>	<b>\$ 9,184</b>	<b>\$ 34,367</b>	<b>(73.3%)</b>	<b>\$ 39,871</b>	<b>\$ 90,915</b>	<b>(56.1%)</b>

**Table of Contents*****Software Delivery***

Software delivery primarily includes revenue from system solutions, which is comprised of software license fees and hardware revenue, and recurring revenue from SaaS contracts and other subscription-based arrangements, which are included in transaction processing and other, and the related expenses incurred to deliver these solutions to our clients.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Revenue	\$ 77,229	\$ 95,751	(19.3%)	\$ 244,773	\$ 283,275	(13.6%)
Income from operations	\$ 9,223	\$ 19,935	(53.7%)	\$ 34,296	\$ 62,332	(45.0%)
Operating margin %	11.9%	20.8%		14.0%	22.0%	

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Software delivery revenue decreased during the three and nine months ended September 30, 2012 due to a decrease in system sales which consists of a \$12 million and \$31 million decrease in software revenue, respectively, and an \$8 million and \$18 million decrease in hardware revenue, respectively, as we experienced a decline in orders as certain clients and prospects delayed purchase decisions due to speculation about Allscripts' future corporate autonomy and others continued to delay purchase decisions as they wait for new product releases. Additionally, we continue to experience a shift in sales to smaller physician practices which typically require less robust hardware solutions. Partially offsetting these decreases was an increase in SaaS and subscription-based revenues during the three and nine months ended September 30, 2012 as we expanded our customer base.

Software delivery operating margins declined in the three and nine months ended September 30, 2012 due to a higher mix of third-party systems sales which carry higher costs, an increase in amortization of software development costs and an increase in SaaS operations and infrastructure costs in response to increased demand for our SaaS solutions compared with the same periods in 2011.

**Table of Contents****Services Delivery**

Services delivery derives its revenue through implementation, training and other professional services provided to clients and includes the related expenses incurred to provide these services.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Revenue	\$ 62,462	\$ 64,080	(2.5%)	\$ 197,669	\$ 177,805	11.2%
Income from operations	\$ 8,390	\$ 7,088	18.4%	\$ 26,033	\$ 24,675	5.5%
Operating margin %	13.4%	11.1%		13.2%	13.9%	

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Services delivery revenue decreased during the three months ended September 30, 2012 compared with the prior year as a result of the decline in systems orders and a decrease in consulting services.

The increase in services delivery revenue during the nine months ended September 30, 2012 is attributable to increases in implementation and consulting services including the implementation of third-party solutions as compared with the prior year. On a year-to-date basis, orders for professional services have declined compared with the prior year which is reflected in the decline in professional services for the current quarter.

Services delivery operating margin increased during the three months ended September 30, 2012 as we decreased people-related costs in response to the decline in orders. Operating margin declined in the nine months ended September 30, 2012 primarily due to the incremental costs incurred to implement a higher mix of third-party systems sales that are more costly to implement.

**Table of Contents****Client Support**

Client support derives its revenue through software and hardware maintenance contracts and includes the related expenses incurred to provide support to our customers.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Revenue	\$ 118,315	\$ 113,142	4.6%	\$ 353,674	\$ 332,009	6.5%
Income from operations	\$ 81,143	\$ 78,973	2.7%	\$ 242,828	\$ 228,466	6.3%
Operating margin %	68.6%	69.8%		68.7%	68.8%	

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Client support revenue increased during the three and nine months ended September 30, 2012 due to increases in our client base and customer activations compared to the prior year comparable periods.

Client support operating margin for the three months ended September 30, 2012 decreased slightly compared with the prior year as people-related and infrastructure expenses increased, and remained flat for the nine months ended September 30, 2012.

**Table of Contents*****Pathway Solutions***

Pathway solutions includes revenue and the related expenses for financial, administrative, and clinical offerings, including medical claims processing and other Revenue Cycle Solutions, ePrescribe and Patient Portal.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Revenue	\$ 42,796	\$ 41,296	3.6%	\$ 130,117	\$ 124,301	4.7%
Income from operations	\$ 26,118	\$ 25,859	1.0%	\$ 79,719	\$ 79,620	0.1%
Operating margin %	61.0%	62.6%		61.3%	64.1%	

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

Pathway solutions revenue increased during the three and nine months ended September 30, 2012 primarily due to an increase in demand for our solutions.

Pathway solutions operating margin decreased in the three and nine months ended September 30, 2012 as we incurred increased costs in response to demand for our solutions.

**Table of Contents*****IT Outsourcing***

IT outsourcing includes revenue from our information technology outsourcing solutions and includes the related expenses incurred to deliver these solutions to our clients.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Revenue	\$ 41,261	\$ 33,733	22.3%	\$ 119,262	\$ 100,855	18.3%
Income from operations	\$ 8,978	\$ 6,145	46.1%	\$ 25,298	\$ 19,639	28.8%
Operating margin %	21.8%	18.2%		21.2%	19.5%	

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

IT outsourcing revenue increased during the three and nine months ended September 30, 2012 primarily due to expanded service solutions to existing customers while also expanding our customer base.

IT outsourcing operating margin increased during the three and nine months ended September 30, 2012 as increases in revenue were partially offset by increases in headcount-related costs as we responded to the increased demand for our IT outsourcing solutions.

**Table of Contents****All Other**

Corporate general and administrative expenses are centrally managed and solutions research and development expenses, including amortization of capitalized software development costs, are not attributed to an operating segment. As a result, these expenses are not allocated to our reportable segments because they are not part of the segment profitability results reviewed by management.

In determining revenue and income from operations for our segments, we do not include the amortization of acquisition-related deferred revenue adjustments in revenue and we exclude amortization of intangible assets and stock-based compensation expense from the operating expense segment data provided to our chief operating decision maker. Accordingly, these amounts are not included in our reportable segment results and are included in the unallocated amounts within All Other.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
<b>Revenue:</b>						
Remote Hosting	\$ 17,854	\$ 18,151	(1.6%)	\$ 52,790	\$ 52,235	1.1%
Unallocated Amounts	777	(2,417)	(132.1%)	(2,923)	(14,605)	(80.0%)
<b>Total revenue</b>	<b>\$ 18,631</b>	<b>\$ 15,734</b>	<b>18.4%</b>	<b>\$ 49,867</b>	<b>\$ 37,630</b>	<b>32.5%</b>
<b>Income from operations:</b>						
Remote Hosting	\$ 668	\$ 652	2.5%	\$ 1,146	\$ 3,411	(66.4%)
Unallocated Amounts	(125,336)	(104,285)	20.2%	(369,449)	(327,228)	12.9%
<b>Total income from operations</b>	<b>(\$ 124,668)</b>	<b>(\$ 103,633)</b>	<b>20.3%</b>	<b>(\$ 368,303)</b>	<b>(\$ 323,817)</b>	<b>13.7%</b>

*Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011*

The financial information above includes revenue primarily from our Remote Hosting operating segment and similar amounts of operating expenses related to this segment are included in income from operations for all periods presented. Operating income for the nine months ended September 30, 2012 has decreased compared to the prior year period due to increased infrastructure costs incurred to accommodate software upgrades.

Expenses increased during the three and nine months ended September 30, 2012 primarily due to an increase in research and development headcount. Also contributing to the increase are higher legal expenses in connection with general legal matters, including expenses related to addressing claims involving the Company, and a \$3 million and \$9 million increase, respectively, in amortization of software development costs compared to the prior year. These increases were partially offset by a decrease in expenses incurred relating to the Eclipsys Merger and other non-recurring costs. Additionally, during the three months ended September 30, 2012, we recorded asset impairment charges totaling \$11 million that are not attributable to an operating segment.

**Table of Contents****Contract Backlog**

Contract backlog represents the value of bookings and maintenance contracts that have not yet been recognized as revenue. A summary of contract backlog by revenue category is as follows:

(Dollar amounts in millions)	As of September 30, 2012	As of December 31, 2011	As of September 30, 2011	% Change from December 31, 2011	September 30, 2012 September 30, 2011
Contract backlog:					
System sales	\$ 111	\$ 136	\$ 125	(18.4%)	(11.2%)
Professional services	395	393	352	0.5%	12.2%
Maintenance	860	833	797	3.2%	7.9%
Transaction processing and other	1,461	1,492	1,496	(2.1%)	(2.3%)
Total contract backlog	\$ 2,827	\$ 2,854	\$ 2,770	(0.9%)	2.1%

Total contract backlog as of September 30, 2012 remained flat compared with December 31, 2011 as an increase in maintenance revenue backlog was offset by decreases in systems sales and transaction processing and other backlog categories. Maintenance revenue backlog increased as a result of new client go-lives as well as maintenance renewals in our installed base. System sales backlog declined as we experienced a decline in orders during the nine months ended September 30, 2012 as we continue our efforts to improve product performance and delivery execution.

Total contract backlog increased during the nine months ended September 30, 2012 compared with the prior year comparable period primarily due to an increase in maintenance revenue backlog as a result of new client go-lives as well as maintenance renewals in our installed base.

**Bookings**

Bookings reflect the value of executed contracts for software, hardware, services, remote hosting, outsourcing and SaaS. Bookings were as follows:

(Dollar amounts in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Bookings	\$ 162	\$ 267	(39.3%)	\$ 551	\$ 724	(23.9%)

We experienced a decline in bookings during the three and nine months ended September 30, 2012 compared with the prior year comparable periods as certain clients and prospects delayed purchase decisions due to speculation about Allscripts' future corporate autonomy and others continued to delay purchase decisions as they wait for new product releases.

**Table of Contents****Liquidity and Capital Resources**

As of September 30, 2012 and 2011, our principal sources of liquidity consisted of cash, cash equivalents and marketable securities of \$95 million and \$86 million, respectively, and our revolving credit facility described below. The change in our cash balance is reflective of the following:

***Operating Cash Flow Activities***

(In thousands)	Nine Months Ended September 30,		
	2012	2011	\$ Change
Net income	\$ 23,169	\$ 47,626	(\$ 24,457)
Non-cash adjustments to net income	149,283	149,600	(317)
Cash impact of changes in operating assets and liabilities	(7,904)	(35,901)	27,997
Net cash provided by operating activities	\$ 164,548	\$ 161,325	\$ 3,223

***Nine Months Ended September 30, 2012 Compared to the Nine Months Ended September 30, 2011***

Net cash provided by operating activities increased in the nine months ended September 30, 2012 as cash received from customers increased at a faster rate than operating disbursements compared to the same period in 2011.

**Table of Contents***Investing Cash Flow Activities*

(In thousands)	Nine Months Ended September 30,		
	2012	2011	\$ Change
Capital expenditures	(\$ 55,481)	(\$ 33,301)	(\$ 22,180)
Capitalized software	(39,340)	(46,529)	7,189
Net (purchases) sales and maturities of marketable securities and other investments	84	(12,857)	12,941
Proceeds received from sale of fixed assets	0	20,000	