ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
Form 10-K/A
March 12, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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	36-4392754
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

222 Merchandise Mart Plaza, Suite 2024, Chicago, IL 60654

(Address of principal executive offices and zip code)

(312) 506-1200

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on which Registered
Common Stock, par value $0.01 per share	**The NASDAQ Global Select Market**
Series A Junior Participating Preferred Share Purchase Rights	**The NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or section 15(d) of the Exchange Act. Yes ¨ No ¨

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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant based upon the closing sale price of the common stock on June 30, 2012, the last business day of the registrant s most recently completed second quarter, as reported by NASDAQ Global Select Market, was approximately $1,821,664,594.

The number of outstanding shares of the registrant s common stock as of March 1, 2013 was 172,715,295.

Documents Incorporated by Reference: Portions of the Proxy Statement for the 2013 annual stockholders meeting are incorporated by reference into Part III.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this Form 10-K/A) to the registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, initially filed with the Securities and Exchange Commission on March 1, 2013 (the Original Filing), is being filed to provide certain information that was omitted from the Original Filing, including (x) the audited consolidated statements of operations, of comprehensive income (loss), of stockholders equity, and of cash flows for the seven months in the period ended December 31, 2010 and the year ended May 31, 2010, and the financial statement schedule for the seven months in the period ended December 31, 2010 and for the year ended May 31, 2010 (collectively, the Subject Financial Statements), which were unaudited in the Original Filing, and (y) the report of PricewaterhouseCoopers LLP (PwC) in respect of the Subject Financial Statements. In addition, this Form 10-K/A includes consents of Ernst & Young LLP and PwC as exhibits, and includes certain updates relating to the registrant s recently announced acquisition of dbMotion, Ltd.

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

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2012 ANNUAL REPORT ON FORM 10-K

Allscripts Healthcare Solutions, Inc. was incorporated in the state of Delaware. In this report, we, us, our and Allscripts refer to Allscripts Healthcare Solutions, Inc. and its wholly owned subsidiaries, unless the context indicates otherwise.

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Safe Harbor for Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities laws that involve risks and uncertainties. We develop forward-looking statements by combining currently available information with our beliefs and assumptions. These statements relate to future events, including our future performance, and management s expectations, beliefs, intentions, plans or projections relating to the future and some of these statements can be identified by the use of forward-looking terminology such as believes, expects, anticipates, estimates, project intends, seeks, future, continue, contemplate, would, will, may, should, and the negative or other variations of those terms or cor terminology or by discussion of strategy, plans, opportunities or intentions. As a result, actual results, performance or achievements may vary materially from those anticipated by the forward-looking statements.

Among the factors that could cause actual results, performance or achievements to differ materially from those indicated by such forward-looking statements are:

- the possibility that our current initiatives focused on product delivery, client experience, streamlining our cost structure, and financial performance may not be successful, which could result in customer attrition;
- the impact of the realignment of our sales and services organization;
- potential difficulties or delays in achieving platform and product integration and the connection and movement of data among hospitals, physicians, patients and others;
- the risks that we will not achieve the strategic benefits of the merger (the Eclipsys Merger) with Eclipsys Corporation (Eclipsys) or our acquisition of dbMotion, Ltd. (dbMotion), or that the Allscripts products will not be integrated successfully with the Eclipsys and dbMotion products;
- competition within the industries in which we operate, including the risk that existing clients will switch to products of competitors;
- failure to maintain interoperability certification pursuant to the Health Information Technology for Economic and Clinical Health Act, with resulting increases in development and other costs for us and possibly putting us at a competitive disadvantage in the marketplace;
- the volume and timing of systems sales and installations, the length of sales cycles and the installation process and the possibility that our products will not achieve or sustain market acceptance;
- the timing, cost and success or failure of new product and service introductions, development and product upgrade releases;
- we may incur costs or customer losses relating to the standardization of our small office electronic health record and practice management systems that could adversely affect our results of operations;
- competitive pressures including product offerings, pricing and promotional activities;

our ability to establish and maintain strategic relationships;

errors or similar problems in our software products or other product quality issues;

the outcome of any legal proceeding that has been or may be instituted against us and others;

compliance obligations under new and existing laws, regulations and industry initiatives, including new regulations relating to HIPAA/HITECH, increasing enforcement activity in respect of anti-bribery, fraud and abuse, privacy, and similar laws, and future changes in laws or regulations in the healthcare industry, including possible regulation of our software by the U.S. Food and Drug Administration;

the possibility of product-related liabilities;

our ability to attract and retain qualified personnel;

the continued implementation and ongoing acceptance of the electronic record provisions of the American Recovery and Reinvestment Act of 2009, as well as elements of the Patient Protection and Affordable Care Act (aka health reform) which pertain to healthcare IT adoption, including uncertainly related to changes in reimbursement methodology and the shift to pay-for-outcomes;

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

legislative, regulatory and economic developments;

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

breach of data security by third parties and unauthorized access to patient health information by third parties resulting in enforcement actions, fines and other litigation; and

those factors discussed in Risk Factors in our periodic filings with the Securities and Exchange Commission (the SEC).

We make these statements under the protection afforded by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Because forward-looking statements are subject to assumptions and uncertainties, actual results, performance or achievements may differ materially from those expressed or implied by such forward-looking statements. Stockholders are cautioned not to place undue reliance on such statements, which speak only as of the date such statements are made. Except to the extent required by applicable law or regulation, Allscripts undertakes no obligation to revise or update any forward-looking statement, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

Item 1. Business

Overview

Allscripts is a leading provider of healthcare 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 with the goal of transforming healthcare by improving the quality and efficiency of patient care.

We provide a variety of integrated clinical software applications for hospitals, physician practices and post-acute organizations. For hospitals and health systems these applications include our Sunrise Enterprise suite of clinical solutions, comprising a full acute care Electronic Health Record (EHR), integrated with financial/administrative solutions including performance management and revenue cycle/access management. Our hospital and health system solutions include modules of the Sunrise suite that are available on a stand-alone basis, as well as additional stand-alone solutions including Emergency Department Information System (EDIS), care management and discharge management. Allscripts IT Outsourcing enables hospitals and physician groups to concentrate on their core mission while using IT to improve clinical, financial and operational outcomes. Allscripts Remote Hosting helps healthcare organizations manage their complex healthcare IT solutions infrastructure while freeing up the physical space, resources and costs associated with maintaining computer servers and deploying client-based applications on-site.

For physician practices of every size and kind, our solutions include: integrated EHR and practice management functionality available either via traditional on-premise delivery or via Software-as-a-Service (SaaS) (such solutions are also available independent of one another); revenue cycle management software and our new Revenue Cycle Management Services solution, which enables practices to outsource their full revenue cycle to us or address requirements in-house; clearinghouse services; stand-alone electronic prescribing; and document imaging solutions for physician practices. We also provide a variety of solutions for home care, hospice, skilled nursing, and other post-acute organizations; these range from a fully integrated EHR and financial management solution to Referral Management.

Clients in every care setting can leverage Allscripts mobile solutions to deliver remote access to EHR and other capabilities on a wide variety of mobile devices including iPad, iPhone, BlackBerry, Android and Windows Mobile smartphones. Additional add-on applications include our Patient Portal, Patient Kiosk, Prenatal, and Analytics solutions. Our community-based solutions for hospitals and health systems, provided in partnership with dbMotion, which we acquired on March 4, 2013, deliver meaningful health information exchange and enable information connectivity across entire communities of providers, regardless of what technology vendor they use, helping our clients to compete in an evolving marketplace.

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.

Eclipsys Merger

The combination of Allscripts and Eclipsys in 2010 has produced a larger, more competitive and complete solutions provider within the healthcare information technology industry. Today we bring to market one of the

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most comprehensive solution offerings for healthcare organizations of every size and setting. We provide a single platform of clinical, financial, connectivity and information solutions for every segment of the acute, ambulatory and post-acute market.

Given our unique breadth of solutions and customer types, we are ideally positioned to connect physicians, other care providers and patients across all health care provider settings including hospitals, small or large physician practices, post-acute facilities, or a home care setting. We provide one of the broadest suites of applications available in healthcare, enabling our clients to connect caregivers, provide information where and when needed, and generate insights that lead to better clinical and financial outcomes. We are well-positioned to compete for opportunities among large hospitals and health systems that increasingly are looking to one information technology vendor to provide a single, end-to-end solution across all points of care.

At the same time, our unique service-oriented architecture enables hospitals and health systems to pursue a best-of-class strategy that protects their current IT investments and applications without the added expense of the rip-and-replace strategy promoted by many acute care competitors. Moreover, our ability to field interoperable, vendor-agnostic solutions built on an open IT architecture provides us a competitive edge by enabling hospitals to easily connect their IT systems with those of affiliated physicians who use systems from another vendor. Hospitals view their affiliated base of referring physicians as important clinical partners, so information connectivity with these physicians streamlines the referral process and strengthens bonds with a key business constituency.

Our Competitive Strengths

We believe that the following competitive strengths are the keys to our success:

Industry-Leading Solutions

We have been an innovator in the development and adoption of healthcare information technology solutions. We believe our clinical and healthcare solutions provide the following advantages:

Client Reach. Healthcare providers can instantly access our web-based clinical solutions from the hospital, the clinic or remote locations. Providers appreciate the convenience of remote connectivity that enables them to easily perform critical tasks such as documenting patient visits, reviewing lab results and writing prescriptions after hours and while on call. In addition to the standard desktop computers, our solutions run on a wide variety of mobile devices including tablet PCs, every major smartphone, desktop workstations and other wireless devices.

Innovation. Allscripts has developed a reputation for innovation through the introduction of pioneering new products. Recent examples include:

In 2012 we released Allscripts Wand , our native iPad® application for Enterprise and Professional EHR. It couples the latest in tablet technology with the latest in user-experience innovation for a revolutionary approach to how clinicians practice medicine. Wand enables the mobile healthcare professional to move between their desktop and iPad for patient consultations and management. The result is a streamlined workflow and faster access to data.

Sunrise Mobile MD, a mobile solution that offers physicians greater control of the patient encounter on an Apple iPhone® or iPod touch®. Sunrise Mobile MD is built on the company s industry-defining open platform to enable proprietary, native integration with the Sunrise Enterprise 5.5 suite. Physicians using the Allscripts iPhone application gain direct access to and from the Sunrise Enterprise electronic health record enabling them to remotely monitor their hospitalized patients.

Allscripts Remote, the ambulatory corollary to Sunrise Mobile MD, enables physicians to access their Allscripts ambulatory EHR using an iPhone , iPod touch®, BlackBerry®, Windows Mobile® or Android® smartphone. Capabilities include quick access to real-time patient summary information; fast communication to local hospital emergency rooms; convenient ePrescribing to the patient s regular pharmacy; and real-time access to all the information a physician needs to make decisions, including medical history, lab results and

medications.

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Allscripts Patient Kiosk is the first kiosk from a major practice management and EHR vendor. The kiosk connects to our EHR and practice management solutions to enable patients to quickly check-in, pay their co-pays using a credit card and conduct other business while taking control of their own healthcare with a dashboard view of all their personal information, including a complete health maintenance plan and alerts about upcoming or overdue tests.

The Allscripts Developer Program (ADP) enables clients and third parties to use Allscripts technology to natively integrate their applications with our clinical and business performance solutions. Clients can search the Allscripts Application Store & Exchange (ASX) to select or share applications developed through the ADP. By enabling Allscripts clients to easily locate and exchange technologies that are natively integrated with Sunrise Enterprise, ASX protects their existing technology investments and helps avoid expensive rip-and-replace situations. In October 2012, Allscripts launched a $1 million health innovation program, called the Open App Challenge. The program challenges developers and vendors to create and integrate applications that become an extension of Allscripts Open Electronic Health Records software. The goal is to make it easier for providers to add new apps to their workflow to improve patient outcomes in a measurable way. The program will feature awards for apps focused on the management of high cost chronic diseases and value-based care imperatives.

Allscripts Revenue Cycle Management Services (RCM Services) is an end-to-end, integrated financial and administrative management solution for physician practices. The SaaS business solution requires no new hardware or up-front costs, and is designed to meet the regulatory requirements of health reform. Allscripts RCM Services provides physician practices of every size and specialty with a complete outsourced revenue cycle solution that is paid for on an ongoing basis, as a percentage of their monthly collections. The turnkey, full-service billing and collections solution manages the entire revenue cycle continuum, from operational planning to final collections and denials management all working in synch to drive out costs and drive in cash flow.

SaaS solutions. By making a wide variety of our solutions available on-demand over the Internet using a web browser we believe we have significantly increased their ease of adoption. This capability is especially important for physicians in independent practice and small groups who lack the resources and know-how to manage an on-premise software application. Notably, SaaS delivers all of the benefits of a cloud-based approach to delivering software while also providing the rich features and functionality of traditional software, which can be limited in some cloud-based healthcare IT architectures. Furthermore, our approach is a prudent response to persistent concerns with data privacy in the cloud. We believe our SaaS approach to on-demand software offers significant future flexibility without sacrificing current performance.

Interoperability. Our products are designed to operate with existing installed systems, in both ambulatory and acute settings. Our open architecture platform enables vendor freedom of choice to our clients and brings the management of healthcare technology into the modern age. The platform is intended to reduce the costs and resource demands hospitals experience in managing hundreds of vendor systems while effectively ending the battle between best-of-breed applications versus enterprise solutions. This platform opens the door to clients and third parties to natively build applications without the need for interfaces, thus providing a cost of ownership that can be dramatically lower than a single vendor with a closed proprietary architecture. Additionally, by making it easy for clients to deploy our Sunrise Enterprise and SCM solutions in combination with their existing IT assets, we can deliver Sunrise at a total-cost-of-ownership that is more manageable for mid-sized community hospitals than a total rip-and-replace approach, a model we believe represents a significant market opportunity.

Enhancing the Revenue Cycle. We focus on making it easier for our clients to access new opportunities for financial gain through a variety of revenue cycle solutions. In particular, we believe that our Payerpath solution is one of the leading revenue cycle management and clearinghouse services in the United States with more than 600 million revenue cycle management transactions processed each year. Available on a stand-alone basis or integrated with our practice management systems, Payerpath s comprehensive suite of internet solutions addresses every step in the reimbursement cycle for physician

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practices, clearinghouses and payers, delivering improved reimbursement and claim management processes that lead to cleaner claims and faster payments. For example, Payerpath Eligibility provides instant verification of patient insurance eligibility, ending phone calls to payers to clarify covered procedures and patient eligibility. Another example, Allscripts Patient Payment Assurance provides point-of-care collection of credit card and debit card payments, reducing the need for patient billing, which can dramatically reduce patient receivables. By enabling significant return on investment, our revenue cycle solutions allow providers to focus less on running their businesses and more on providing quality patient care. Our new Allscripts RCM Services takes this approach to the next level with a fully outsourced business office.

Accelerated Upgrades. Our Upgrade Enablement Center (UEC) provides a quick and accelerated migration path for users of our legacy Misys EMR. The typically four- to six-week process lets clients protect their investment in software and information while upgrading to our Professional EHR, providing a rapid opportunity to participate in Health Information Technology for Economic and Clinical Health Act (HITECH) incentives.

Significant Installed Base

Approximately 180,000 physicians and 1,500 hospitals and more than 10,000 post-acute organizations nationwide use Allscripts solutions to automate and connect their clinical and business operations. Our significant installed base, including some of the country s most prestigious medical groups and hospitals, serves as a reference source for prospective clients who are interested in purchasing our solutions.

Market Demand for Ambulatory EHR among Hospital Base

The proportion of U.S. physician practices owned by hospitals or health systems continues to grow. Industry observers expect this trend to continue for the foreseeable future and have projected the number to reach 75% by 2014 as hospitals seek to strengthen their relationships with physicians, who constitute by far their largest source of income (via patient referrals), and seek competitive advantage in their communities. A primary strategic imperative of hospital CIOs is to bring their current and newly-employed physicians live on a common EHR platform, ensuring continuity of care and greater efficiencies through seamless information exchange. At the same time, hospitals increasingly are seeking to take advantage of the HITECH incentives for EHR adoption by providing an EHR to their affiliated physicians at a subsidized rate. Their selection of an EHR for both employed and affiliated physicians hinges in large part on the level of integration between the EHR and their existing inpatient information system. The integration of Allscripts EHRs for physician practices and hospitals and health systems is intended in part to meet this rapidly evolving market demand.

Population Health

Allscripts open architecture supports the impending shift in care delivery from single patient, episodic care to continuous population health management by connecting communities and providing robust clinical analytics tools that stratify and offer valuable insights into patient populations. Allscripts clinical decision support tools at the point of care provide evidence based guidelines that facilitate better provider decisions, and ultimately, better patient outcomes. As requirements advance, Allscripts clinical intelligence solutions can help to identify high risk patients, reduce preventable costs and improve performance all while providing a longitudinal view of the patient over the entire continuum of care. Additionally, patient engagement tools are integrated through the Allscripts open platform, promoting proactive patient involvement in their own care which is essential to optimizing patient outcomes, lowering overall costs and managing chronically ill populations.

A Solution for Accountable Care

Key healthcare stakeholders have proposed several solutions that fall under the general heading of Value-Driven Healthcare. The federal government s leadership in this arena includes the HITECH Act, new payment models, such as Patient Centered Medical Home, and Accountable Care Organizations (ACOs), and demonstration

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projects, such as the Comprehensive Primary Care Initiative. Each of these efforts hinges on the need to improve care coordination between teams of providers and streamline transitions in care the movement of patients from one care setting to another which remains the weakest link in the healthcare chain. An interoperable, connected EHR is a required element to improve care transitions and ensure that providers in every setting have access to the latest information on their patients. The Allscripts Connected Community of Health takes the EHR to its logical conclusion. The connected community uses a combination of our open technology platform, our full spectrum connectivity to ambulatory, acute and post-acute solutions, and our robust community solutions to securely share information between providers in all care settings, no matter which health IT systems they use. Not only does this facilitate seamless care coordination between providers inside their own organization, but also with affiliated physicians and other independent stakeholders outside their organization. The goal is to create a single source of truth about a patient a unified community record to deliver effective and economical care.

Breadth of Product and Service Offering

Allscripts provides one of the most comprehensive solution offerings in the industry for healthcare organizations of every size and setting. We offer a single platform of clinical, financial, connectivity and information solutions, as well as standalone best-of-breed solutions in virtually every health information management category. Moreover, we are one of the few healthcare IT companies able to provide solutions that service every healthcare setting, from solo physician practices to the largest academic medical groups, hospitals of every size and configuration, and post-acute organizations including skilled nursing facilities, homecare and hospice.

Strength of Distribution Network and Payer Relationships

We employ a highly differentiated sales and distribution strategy to reach potential clients in all segments of the physician market, ranging from solo and small-group practices to the largest academic medical groups. Our strategy employs three sales channels a large direct sales force, a national distribution network, and multiple hospitals that are marketing our solutions.

Allscripts has growing partnerships with retail health clinics in the United States. For example, in February 2012, a leading retail health clinic in the United States announced it will transition from its existing, proprietary Electronic Medical Record system to Allscripts. This transition will assist this provider in its mission of delivering high quality accessible medical care in hundreds of retail clinics across the United States.

The strength of our distribution network has enabled Allscripts to take a unique, three-pronged approach to addressing the physicians practice market one practice at a time, one community at a time, and one region at a time. *One practice at a time* refers to our basic selling model executed by our direct sales force. *One community at a time* is an approach demonstrated by multiple sales in 2012 including Coordinated Health, a top integrated healthcare delivery network across Pennsylvania and New Jersey. Coordinated Health selected Sunrise Clinical Manager from Allscripts to support collaborative care initiatives across Coordinated Health s 11 locations, two hospitals, and one ambulatory surgery center, enhancing decision-making and automating processes for accuracy and patient safety. *One region at a time* is a strategy developed recently through our partnership with a large payer in North Carolina. Blue Cross and Blue Shield of North Carolina, in partnership with NC Health Information Exchange, announced in September 2011, they will provide an 85 percent subsidy for at least 750 physicians across the state to acquire Allscripts EHR and related training and support. The program will also enable participating providers to electronically exchange patient information with other North Carolina healthcare organizations through the NC Health Information Exchange. This partnership is representative of more payers investing in healthcare IT to encourage their network providers to deliver higher quality care.

Comprehensive Connect Strategy

The Allscripts Community Architecture helps local and regional health systems share information between a range of technologies from any source, creating a single patient record for providers across the continuum of care. The Allscripts Community Solution enables all the members of a patient s care team to access the same up-to-date

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information about the patient, regardless of whether they work in acute, ambulatory or post-acute settings inside or outside the health system. The Allscripts Community Solution combines the Allscripts Community Exchange or Kinexus™ with the Allscripts Community Record. Kinexus efficiently connects and manages electronic transactions of all kinds between health systems and community/affiliated physician practices. The Community Record, provided in partnership with dbMotion, which we acquired on March 4, 2013, aggregates and harmonizes data from virtually any EHR or other clinical IT system, creating a single patient record across a health system or community.

Meaningful Use Certification

Our core go-to-market acute care and ambulatory EHRs are certified as meeting the Stage 1 requirements for demonstrating Meaningful Use of an EHR, a requirement for healthcare organizations that demonstrate they have earned financial incentives as allowed for under the HITECH portion of the American Recovery & Reinvestment Act (ARRA). The following products are compliant with the criteria set for the 2011 Edition of our software by the Office of the National Coordinator for Health Information Technology (ONC) and certified by either the Drummond Group or Certification Commission for Health Information Technology (CCHIT), both of which qualify as an ONC Authorized Testing and Certification Body (ONC-ATCB), in accordance with the applicable eligible provider and hospital certification criteria adopted by the Secretary of Health and Human Services. Initial certifications were completed by the end of 2010 and subsequently have continued to be enhanced on an as-needed basis as product updates were released.

We expect to certify these products for the 2014 Edition criteria in 2013. This certification will be required for users who intend to demonstrate Meaningful Use for either Stage 1 or Stage 2 beginning with their 2014 participation (this begins as soon as the October 2013 start date for Eligible Hospitals and January 2014 for Eligible Providers)

Ambulatory:

Allscripts Enterprise EHR (Complete): 11.2, 11.3, 11.4

Allscripts Enterprise EHR (Modular): 11.2, 11.2.0.496, 11.3, 11.4

Allscripts ePrescribe (Modular): 15.2.0, 16.0, 16.1

Allscripts Professional EHR (Complete): 9.2, 9.2.2, 9.3, 10, 12, 12.1

Sunrise Ambulatory Care Module Set (Modular): 5.5, 5.5 FP1, 6.0

Sunrise Patient Portal and Sunrise Ambulatory Care EHR (Modular): 5.5

Inpatient:

Allscripts ED (Complete): 7.0, 7.1

Allscripts ED (Modular): 6.3 Service Release 4

Sunrise Acute Care (Complete): 5.5, 5.5 FP1, 6.0

Sunrise Acute Care Module Set (Modular): 5.5, 5.5 FP1, 6.0

Sunrise Emergency Care (Complete): 5.5, 5.5 FP1, 6.0

Sunrise Emergency Care Module Set (Modular): 5.5, 5.5 FP1, 6.0

Sunrise Patient Portal and Sunrise Acute Care EHR (Modular): 5.5

We certified some of our solutions as both complete and modular EHRs under the ARRA regulations to provide clients with the flexibility to choose elements of the EHR which best fit their current IT environment. For instance, if an Enterprise EHR client wants to keep a previously-installed and certified patient portal application, under ARRA rules they need to implement our modularly certified version of that EHR, which is stripped of Enterprise s portal capabilities.

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Sales and Marketing

We employ sales executives with industry expertise, and we primarily sell directly to our customers through our sales force. In addition to our direct sales force, we also have established reseller relationships with a number of strategic partners. A number of our large hospital and health system clients also actively resell our solutions to other healthcare entities, primarily physician practices.

We continue efforts to expand sales of our solutions outside of North America, primarily in the European and Asia-Pacific region. We achieved initial success with sales of Sunrise Clinical Manager to the largest healthcare provider in Singapore as well as other hospital groups in Asia. Our performance with our Asian clients is proving to be a catalyst to help us drive additional business across the Asia-Pacific region. For example, in December 2011, we announced an agreement with a public health system in Australia to implement our Sunrise Enterprise acute care solution across their network. Further to our international success, Allscripts signed two new customers in the United Kingdom. Also in 2012, Allscripts extended our agreement with one of our customers in Italy.

Allscripts Offerings

We provide the following software and services:

Allscripts Enterprise EHR is an award-winning EHR solution with an open architecture designed to enhance physician productivity using tablet PCs, smartphones, or a desktop workstation for the purpose of automating the most common physician activities, including prescribing, dictating, ordering lab tests and viewing results, documenting clinical encounters and capturing charges, among others. Allscripts Enterprise is the clinical software solution of choice for multi-specialty and specialty practices as well as academic medical centers and hospital sponsored initiatives. Uniquely designed for the specific needs of physicians in today s increasingly interconnected healthcare environment, Allscripts Enterprise empowers and connects an organization clinically, operationally and financially.

Allscripts Practice Management is a practice management system that streamlines financial and administrative aspects of physician practices, including patient scheduling and registration, electronic claims submission, electronic remittances and patient billing and collections. This system also provides multiple resource scheduling, instant reporting and referral tracking. Our electronic data interchange (EDI) solution facilitates statement management processing, claims management processing, electronic remittances and appointment reminders.

Allscripts Professional EHR is targeted at small to mid-sized physician practice groups and communities. Similar to our Enterprise EHR, this open solution offers advanced point-of-care clinical decision support and automates the most common physician activities, such as prescribing, clinical reporting, ordering lab tests and viewing results and capturing charges.

Allscripts ePrescribe is an easy-to-use, web-based e-prescribing solution that is safe, secure, requires no downloading and no new hardware. The software is being offered free of charge to every prescriber in America in furtherance of the National ePrescribing Patient Safety Initiative, a collaborative initiative introduced and led by us to enhance patient safety and reduce preventable medication errors. Allscripts ePrescribe can be a starting point for medical groups to transition over time to a complete EHR.

Allscripts ED is an emergency department information system designed to manage patient flow through the emergency department by tracking patient location, activity and outstanding orders and procedures. These solutions guide emergency clinicians in entering consistent, complete and efficient documentation on patients and provide shareable, real-time, mobile access to patient information from registration to discharge.

Allscripts Payerpath is a claims management service in the United States with more than 600 million claims and revenue cycle transactions processed annually. Used by approximately 110,000 physicians, Payerpath provides the credibility, experience and results demanded by both payers and providers. Payerpath can help organizations succeed in the business of healthcare through improved

medical claim and claim management processes that lead to cleaner claims and faster payments.

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Allscripts Revenue Cycle Management Services (RCM Services) is a complete end-to-end, integrated financial and administrative management solution for physician practices. The SaaS business solution requires no new hardware and minimal up-front costs, and is designed to meet the regulatory requirements of health reform. Allscripts RCM Services provides physician practices of every size and specialty with a complete outsourced revenue cycle solution that is paid for on an ongoing basis, as a percentage of their monthly collections.

Allscripts Homecare is designed to improve clinical quality of care, financial performance, and operational control for large, integrated home care organizations and small home care companies. With a strong mobility platform, business, clinical and scheduling functionalities, it enables all users across home health, hospice and private duty organizations.

Allscripts Post-Acute Solutions streamline the transition of care process between hospitals and post-acute care facilities. We currently have more than 10,000 acute and post-acute care customers nationwide that will exchange over four million electronic hospital referrals. Allscripts post-acute solutions include: Referral Management, Referral Management Plus, Allscripts Mobile and Core System Integration.

Allscripts Care Management is a fully-integrated web-based solution that simplifies and consolidates utilization management, discharge planning, documentation integrity, audit management, quality management and risk management. Providing a single worklist for all care management processes, the Allscripts Care Management system transforms the administrative process for hospitals and post-acute care facilities, improving efficiency, streamlining and improving the quality of patient care, and generating cost savings and higher revenues. The suite of software that makes up Allscripts Care Management includes: Allscripts Utilization Management, Allscripts Discharge Planning, Allscripts Documentation Integrity, Allscripts Audit Management, Allscripts Quality and Risk Management. These systems are based on a SaaS model designed to provide ease of use and minimal IT staff involvement at the hospital.

Sunrise Enterprise is our suite of solutions for hospitals and health systems, including the following clinical, access, financial and departmental solutions for hospitals:

Sunrise Clinical Manager includes the major integrated applications Sunrise Acute Care, Sunrise Ambulatory Care, Sunrise Critical Care, Sunrise Emergency Care and Sunrise Pharmacy, in addition to related modules and capabilities, such as Knowledge-Based Charting, Knowledge-Based Medication Administration and others. Sunrise Clinical Manager enables a physician or other authorized clinician to view patient data and enter orders quickly at the point of care, from virtually any other point in the enterprise or through secure remote access, providing evidence-based clinical decision support at the time of order entry.

Sunrise Ambulatory Care is considered a module of Sunrise Clinical Manager that is typically implemented within physician practices owned by Sunrise-client hospitals; however, it is a full-service EHR that may also serve as a stand-alone solution for independent physician practices. Sunrise Ambulatory Care is built on the same database as Sunrise Clinical Manager, ensuring seamless integration and flow of patient information between the physician office and hospital.

Sunrise Surgery Powered by SIS is a comprehensive perioperative and anesthesia information management solution that is integrated through the Helios platform. Sunrise Surgery helps organizations increase quality and efficiency, improve patient safety, decrease costs and maximize revenues across the perioperative care continuum.

Sunrise Access Manager, which shares the Sunrise platform and database, which includes Sunrise Enterprise Scheduling and Sunrise Enterprise Registration. These integrated solutions enable healthcare providers to identify a patient at any time within a healthcare organization and to collect and maintain accurate patient information on an enterprise-wide basis.

Sunrise Financial Manager is a comprehensive revenue cycle solution for hospitals and health systems. It provides comprehensive revenue cycle functionality including revenue capture, billing and

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receivables for management for both hospital and hospital-based physician billing. It enables compliance, improves billing and collections accuracy and optimizes revenue cycle through a unique visual view of workflows, allowing users to easily adapt as their business changes.

Allscripts EPSi is an HFMA Peer-Reviewed financial performance management solution that provides integrated analytics, budgeting and knowledge-based performance management. EPSi brings together all the major components of financial management strategic planning, product line budgeting, cost accounting and operation and capital budgeting to more effectively and accurately plan for the future and address the financial challenges facing healthcare organizations today.

Allscripts Patient Flow is an enterprise-wide patient throughput management solution that automates complex and labor intensive operational processes which improve care coordination and communication while increasing overall efficiency and resource use. It addresses all aspects of patient flow in a hospital, from bed management to transport and turnover. The solution provides transparency and control over the flow process from a patient s arrival in the Emergency Department or Admitting to patient placement and care delivery throughout hospital departments with well-coordinated discharge planning and faster bed turnover.

Sunrise Clinical Analytics (SCA) is an analytics solution for Sunrise Clinical Manager (SCM) users to monitor and improve clinical performance, report on ARRA Stage 1 and Stage 2, and, ultimately, reduce the cost of care. With prebuilt or customized reporting and dashboards, the organization gains access to insights on performance to drive improved clinical outcomes. With indicators and structured reports for over 90 quality measures, SCA provides actionable, automated clinical reporting, and seamlessly organizes transactional clinical data into meaningful information. In addition to nationally standardized quality measures, Sunrise Clinical Analytics provides an analytical view on the usage patterns, adoption barriers and care processes custom to a health system.

Allscripts Wand is the native iPad® application for Enterprise and Professional EHR. It couples the latest in tablet technology with the latest in user-experience innovation for a revolutionary approach to how clinicians practice medicine. With Wand, mobile healthcare professionals can access and manage the most commonly used features of Allscripts EHR throughout the day from their iPad moving between their desktop and iPad for patient consultations and management.

Other Clinical/Ancillary acute solutions include:

Sunrise Record Manager is a health information management (HIM) solution that automates the workflow associated with the collection, maintenance and distribution of information to maximize EHR benefits. Sunrise Record Manager helps hospitals better meet regulatory reporting requirements by making data centrally, electronically accessible for easier, faster information gathering and compilation in the enterprise health information system.

Sunrise Laboratory helps high-volume hospital laboratories improve operational performance, saving both time and money and improving effective patient care. Sunrise Laboratory helps automate laboratory departmental workflow from end to end, with decision-making and reporting driven by real-time clinical information. Laboratory departments face increasing regulatory requirements, growing cost pressures, and the need to meet clinical service levels and maintain patient and physician satisfaction despite increasing volumes of work. With fully automated workflow and support for multi-departmental laboratories across a healthcare organization integrated into one information system, Sunrise Laboratory helps labs maximize throughput, decrease turnaround time, capture more revenue, and improve quality and compliance.

Sunrise Radiology, a comprehensive radiology information system, delivers imaging data as an integrated part of the overall patient record that is accessible to clinicians at the point of care or other points of decision-making using any Sunrise Enterprise-enabled device.

Services

Managed IT Services (IT Outsourcing) Allscripts Managed IT Services helps clients maximize the power of their IT investments by delivering modular, cost-effective services that enhance productivity for users

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providing patient care and performing the core functions critical to running their healthcare organization. Our distinctive services model incorporates skilled professionals, best practices, and proven technology, which in return establish a driving infrastructure for continuous improvement across the healthcare organization. The Allscripts Managed IT Services portfolio is designed to enhance business agility, enabling organizations to focus on healthcare core competencies improving patient outcomes. Our dynamic services assist clients in need of productive, experienced staff to augment IT projects or implementations; alternatively, our team can help clients manage complexity, gain scalability and lower costs by outsourcing specific IT business processes to our team or outsourcing the entire IT function, if desired.

Remote Hosting We offer remote hosting services to help our clients manage their complex healthcare IT solutions infrastructure while freeing up physical space, resources and costs associated with maintaining computer servers and deploying client-based applications on-site. Under this offering, we assume responsibility for processing Allscripts and/or non-Allscripts applications for our clients using equipment and personnel at our facilities. Other remote services, such as remote monitoring and remote help desk, are also offered. Software installation, upgrades and patches and network configuration and repairs are handled by Allscripts IT professionals behind the scenes, so hospital IT departments can focus on more strategic initiatives.

Allscripts Professional Services Healthcare information technology services have been increasingly important, as federal initiatives have driven aggressive adoption of Electronic Health Records (EHR) and surrounding applications in both hospitals and ambulatory markets, driving a related need for workflow optimization and a strategic look at how organizations can maximize their opportunities via other health reform programs included in the Patient Protection and Affordable Care Act (PPACA). Allscripts highly skilled Professional Services team maintains in-depth knowledge of our products, a myopic focus on our client s business processes and market needs in order to develop and deliver unparalleled Speed to Value for our products and solutions. Our world-class service team is dedicated to helping clients achieve quality outcomes through workflow optimization, best practices, applied technologies and world-class learning experiences. By deploying a customer-centric service model we are committed to delivering high-value healthcare solutions that build client trust, loyalty and a high degree of product and engagement satisfaction. Allscripts provides comprehensive offerings in implementation, consulting, education, managed IT services and technical support, including:

- Clinical and Operations Consulting Services
- ICD-10 and Meaningful Use Assessment Solutions
- Optimization Services
- Speed to Value Implementation Services
- Managed IT Services
- Proactive Application Monitoring Services
- Remote Database Administration and Monitoring Services
- Education and Adoption Services
- Native Integration Services

Technical Support Services

Research and Development

The majority of our software is based on Microsoft s .NET Framework and other industry standards.

Our latest-generation clinical and access solutions use the same architecture and share the same health data repository and many other components, while being adapted for the workflows of different environments. This enables our clients to tie together their workflows and operations across the entire continuum of care. Further, our software is built on an open architecture that supports the secure exchange of data between systems, as well as the ability to embed and present content.

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Our commitment to deliver world-class products means we must continually invest in software development. In recent years we have significantly expanded our software development efforts in India, which enables us to respond more efficiently and cost effectively to changes in our software design and product development strategy.

The primary purposes of our research and development groups are to develop new features and enhancements to our respective solutions, ensure that our solutions comply with continually evolving regulatory requirements and create additional opportunities to connect our systems to the healthcare community.

We capitalize software development costs incurred from the time technological feasibility of the software is established until the software is available for general release. Non-capitalizable research and development costs and other computer software maintenance costs related to software development are expensed as incurred. Our total spending consists of research and development costs directly recorded to expense and also includes capitalized software development costs as follows:

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
(Dollar amounts in thousands)	**2012**	**2011**	**2010**	**2010**
Research and development costs directly recorded to expense	$162,158	$104,106	$43,261	$49,206
Capitalized software development costs	42,965	60,748	36,936	21,097
Total non-GAAP R&D-related expense	$205,123	$164,854	$80,197	$70,303
Total revenue	$1,446,325	$1,444,077	$613,309	$704,502
Total expense as a % of total revenue	14%	11%	13%	10%

Industry and Competition

The market for our products and services is intensely competitive and is characterized by rapidly evolving technology and product standards, technology and user needs and the frequent introduction of new products and services. Some of our competitors may be more established, benefit from greater name recognition and have substantially greater financial, technical, and marketing resources than us. We compete on the basis of several factors, including: breadth and depth of services, reputation, reliability, accuracy and security, client service, price, and industry expertise and experience.

There are numerous companies that offer acute and/or ambulatory EHR (along with related services) and practice management products, and the marketplace remains fragmented. We face competition from several types of organizations, including providers of practice management solutions, electronic prescribing solutions, ambulatory and acute care EHR solutions, hospital computerized physician order entry, emergency department information systems, analytics, performance management and care management solutions, post-acute discharge management solutions, and homecare EHR solutions.

Our principal existing competitors in the physician healthcare information systems and services market include athenahealth Inc., Cerner Corporation, eClinicalWorks Inc., Emdeon, Epic Systems Corporation, General Electric Company, Greenway Medical, McKesson Corporation, Quality Systems, Inc., The Trizetto Group, Inc., Vitera Healthcare Solutions and Wellsoft Corporation.

Our principal existing competitors in the hospital and post-acute healthcare information systems and services market include Cerner Corporation, Curaspan Health Group, Epic Systems Corporation, General Electric Company, Maxsys Ltd., McKesson Corporation, MedHost, Meditech, Midas+, Optum, Picis, ProviderLink, Quadramed, Siemens AG and Wellsoft Corporation.

Recent Industry Developments

On February 17, 2009, President Barack Obama signed the American Recovery & Reinvestment Act (ARRA), which incorporated the HITECH Act (HITECH) and federal Meaningful Use incentive program.

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HITECH provides financial incentives through the Centers for Medicare and Medicaid Services (CMS) to physicians and hospitals that prove they have adopted and are using Electronic Health Record (EHR) technology to improve both the quality and cost-effectiveness of patient care. Studies demonstrate that effective use of EHRs can reduce medical errors, improve clinical quality and lead to better patient outcomes by enabling real-time access to patient records, medical information and best practices, and electronic connectivity to all healthcare stakeholders, including patients.

In addition to other components of the law, the ARRA provides for what is expected to be approximately $30 billion in funds to encourage health information technology utilization. The total included $2 billion in discretionary funds for supporting programs and an estimated $27 billion for incentives that began to be distributed through Medicare and Medicaid beginning in 2011 to promote widespread adoption and use of interoperable healthcare IT systems, such as the EHR. Physicians who have not adopted certified EHR systems by 2014 will have their Medicare reimbursements reduced by up to 5 percent over a period of time beginning in 2015. Hospitals that do not successfully demonstrate Meaningful Use in 2015 and beyond will also see a significant payment adjustment in their Medicare reimbursement.

Through the Meaningful Use incentives, CMS provides physicians with financial incentive payments of up to $44,000 for Medicare providers or $64,000 for Medicaid providers over five years, beginning in 2011, for deploying and using a certified EHR to care for patients. Hospital incentives under HITECH are tied to several factors but begin with a base payment of $2 million. The law already has ignited significant job growth in the information technology sector and, according to a Congressional Budget Office review of the law s impact, is expected to drive up to 90 percent of US physicians to adopt EHRs in the next decade.

The U.S. Department of Health & Human Services announced in July 2012 within the final regulation related to Stage 2 of the Meaningful Use Electronic Health Record Incentive Program that providers (hospitals and physicians) who attested to their participation in 2011 will not have to start complying with Stage 2 requirements until 2014 rather than the originally scheduled 2013. The deferral was provided in order to provide sufficient time to develop and test updates to software applications meeting the anticipated Stage 2 requirements and transition all providers participating in the program to the updated applications while also ensuring patient safety. To date the deferral has not provided incentive or disincentive for new orders. Additionally, those participating in 2014 will only be required to do so for a single quarter, not for a full twelve months as originally required, and all participating providers will be required to use the 2014 Edition of the EHR provided by their software vendor. Under this change, we will thus have to transition all clients who have attested in 2011, 2012 and/or 2013 to the 2014 Editions of our software by the time they start their program participation in 2014.

The required implementation of new diagnosis and disease codes under ANSI-5010 and ICD-10 by 2013 is also of immediate interest to our client base. These regulations will present a positive opportunity for the company in the context of product upgrades, client service and training. However, the adoption of these standards and the deadline that corresponds with the start of the 2014 period for the EHR Incentive Program could place additional burden on us to meet implementation and training demands during a period of significant client upgrades and new orders associated with accelerating EHR adoption.

Another factor impacting demand for our solutions is the significant revision to provider reimbursement that is being undertaken at the federal level, fostering the move to a value-based system of care. As an example, the Centers for Medicare and Medicaid Services, or CMS, announced the Comprehensive Primary Care Initiative designed to reward providers who demonstrate an emphasis on cost containment and quality improvement specifically through care coordination and an increased emphasis on the role of the primary care provider. Healthcare organizations will need solutions like ours to shift from fee-for-service to fee-for-outcomes because their basic reimbursement will be based, ultimately, on proving quality outcomes that are captured, communicated, measured and shared with other relevant providers. Coordinated care models, of which Accountable Care Organizations (ACOs) are one example, will require an interoperable Electronic Health Record that connects providers across entire communities to coordinate care. Another notable element of the new models being created by the department of Health & Human Services is that every part of the healthcare community is important, which highlights our strategic asset the Allscripts footprint in our 50,000 ambulatory

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practices, our relationships with over 1,500 acute care hospitals and our strong and growing penetration of the post-acute world, with more than 10,000 locations including homecare. Allscripts open platform is able to connect patient information into a single view and help to coordinate care, both inside an organization and throughout a community. Our analytics capabilities also provide insights that will drive both clinical and financial outcomes which will be core to provider revenue in the future.

A related development is the Hospital Readmission Reduction Program that took effect October 1, 2011. The final rules require hospitals to be financially responsible for the cost of care provided to discharged patients readmitted to the hospital for the same problem within 30 days after discharge. As a result, we believe more hospitals may be interested in using our Care Management and Discharge Management products, which streamline the flow of patient information from the hospital to community providers.

Strategic Alliances

Our key strategic relationships include the following:

Cisco Systems, Inc. We have a strategic partnership with Cisco to support our core business through enhanced communications technologies. Cisco technology powers many of the systems by which we communicate with our clients and employees.

CVS Caremark Our strategic partnership with CVS Caremark, the largest pharmacy healthcare provider in the United States, began in January 2010 when CVS Caremark transitioned thousands of providers using the company s proprietary iScribe e-prescribing tool to Allscripts e-prescribing and retired iScribe. Since then, the companies have continued to collaborate. For example, most recently CVS Caremark selected Allscripts retail health solutions as the EHR for its MinuteClinic retail clinics nationwide. The first phase of the deployment, which is expected to ultimately include all 600+ MinuteClinics, began in 2012.

dbMotion, Ltd. In 2011, we made a strategic investment in dbMotion, a private company that provides the technology behind the Allscripts Community Record. dbMotion and Allscripts are working together to deliver integrated core solutions to improve Meaningful Use of information from the physician s office to the hospital connecting the community within the patient s continuum of care and the physician s existing workflow. On March 4, 2013 we acquired the remaining equity interest in dbMotion, which is now a wholly-owned subsidiary of Allscripts.

Dell, Inc. We have a strategic partnership with Dell that encompasses hardware, hosting, and connecting healthcare communities. Dell is Allscripts primary hardware partner, providing the computer equipment needed by our clients to implement our solutions. Additionally, we signed an agreement with Dell in early 2010 to integrate Allscripts EHR and Practice Management solutions into Dell s hosted EHR solution for U.S. health systems and their affiliated physicians. The Dell program offers health systems and physicians the scale and expertise of one of the world s largest technology services organizations. Dell helps sponsor hospitals to configure the Allscripts solutions they select to meet the specific needs of their affiliated physician community. The solution includes application hosting, Health Information Exchange management and revenue opportunities for sponsor hospitals, and everything necessary to promote the solution to physicians.

Intuit, Inc. We have a strategic partnership with Intuit, a provider of business and financial management solutions for small and mid-sized businesses; financial institutions, including banks and credit unions; consumers and accounting professionals. Allscripts was the first practice management company to offer Quicken HealthSM Bill Pay. The online service integrates with our practice management and revenue cycle management solutions, used by 110,000 physicians, to help patients understand their medical bills and pay them online while helping physicians get paid faster. We also collaborate with Intuit in providing secure patient portals and personal health records, connecting patients to selected information about their physician s practice, including information from Allscripts EHR, e-prescribing and practice management solutions.

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M*Modal (formerly MedQuist Inc.) In August of 2011, we entered into a strategic partnership with Medquist/M*Modal Inc. to license their CDS Interactive Speech Recognition Applications for our suite of EHR solutions. M*Modal is a leading provider of clinical narrative capture services, speech understanding technology and clinical documentation workflow. M*Modal s enterprise solutions include mobile voice capture devices, speech recognition, Natural Language Understanding, and web-based workflow platforms and global network of medical editors. This strategic partnership helps healthcare organizations adopt our EHRs, transition to ICD-10, improve patient care, increase physician satisfaction and lower operational costs.

Microsoft Corporation We have a strategic partnership with Microsoft, on whose technology Allscripts products are built. Microsoft SQL Server database and .NET Framework are at the core of our product development platform. The Microsoft platform and .NET Framework offer the ability to improve developer productivity and to deliver flexible applications faster. Microsoft .NET technologies enable healthcare organizations to achieve a lower total cost of ownership by easily integrating legacy applications with new technologies and enabling them to share information across organizations and platforms. Developing our solutions on the Microsoft platform eases our path for integration.

Nuance Communications, Inc. Our strategic partnership with Nuance encompasses utilizing the Nuance Dragon Speech recognition products with our suite of EHR and Radiology applications. Nuance, a leading provider of voice and language solutions for businesses and consumers around the world, has been a longtime partner of Allscripts and is focused on the areas of speech recognition, medical transcription, and clinical language understanding. By speech-enabling our applications, Nuance is helping to drive increased utilization of our products and improving overall client satisfaction. Revenue from the resale of Dragon has increased significantly over the past three years.

Quintiles, Inc. Quintiles helps biopharmaceutical companies develop and commercialize products to improve and lengthen patients lives while demonstrating value to stakeholders. Quintiles is a fully integrated biopharmaceutical services company offering clinical, commercial, consulting and capital solutions worldwide. Through our strategic partnership with Quintiles we plan to jointly develop software solutions to enable improvements to the drug development process. The goal of this partnership is to develop products that are designed to significantly reduce some of the bottlenecks that traditionally impede clinical research, outcomes, education and proof of new compound safety, effectiveness and value.

Financial Information About Segments

Financial information about our segments is described in Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

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 December 31, 2012	As of December 31, 2011	% Change
Contract backlog:			
System sales	$107	$136	(21.3%)
Professional services	376	393	(4.3%)
Maintenance	875	833	5.0%
Transaction processing and other	1,450	1,492	(2.8%)
Total contract backlog	$2,808	$2,854	(1.6%)

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Total contract backlog as of December 31, 2012 decreased slightly compared with December 31, 2011 as an increase in maintenance revenue backlog was offset by decreases in systems sales, professional services, transaction processing and other backlog categories. Maintenance revenue backlog increased as a result of new client activations as well as maintenance renewals in our installed base. System sales backlog declined as we experienced a decline in orders during the year ended December 31, 2012; we continue our efforts to improve product performance and delivery execution. We estimate that approximately 44% of the total backlog at December 31, 2012 will be recognized as revenue during 2013.

Employees

As of December 31, 2012, we had approximately 7,100 employees. None of our employees are covered by a collective bargaining agreement or are represented by a labor union.

Geographic Information

We hereby incorporate by reference Note 18, Geographic Information, of the Notes to Consolidated Financial Statements in Part II, Item 8 of this report.

Available Information

Our website address is www.allscripts.com. Information on our website is not incorporated by reference herein. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to those reports, as well as Section 16 reports filed by our insiders, are available free of charge on our website as soon as reasonably practicable after we file the reports with, or furnish the reports to, the Securities and Exchange Commission.

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below and other information in this report. These are not the only risks and uncertainties that we face. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial may also harm our business operations. If any of these risks or uncertainties occurs, it could have a material adverse effect on our business.

Risks Related to Our Business

Our current initiatives focused on product delivery, client experience, streamlining our cost structure, and financial performance may not be successful.

In an effort to address lower than expected financial results and sales in 2012, our management team is executing on a series of initiatives including improving product delivery and client experience, streamlining our cost structure, and improving financial performance. In 2013 we expect to invest over $200 million in research and development efforts to improve product performance, accelerate product integration and innovation, and to introduce enhancements for regulatory requirements. We have already taken important steps to help maximize the return on our research and development investments by creating Centers of Excellence for our development organization with a goal of providing a more concentrated and focused work environment while reducing complexity and cost. We also recently announced a site consolidation plan that is aligned with the Centers of Excellence strategy. In addition, we plan to more fully align our business terms and financial model with future market demands and unlock our competitive advantages by expanding our solution offerings to our large, diverse client base. Despite these efforts, there can be no assurance that these initiatives will be successful or will improve our results of operations. If these initiatives are not successful, we may experience reduced sales and customer attrition.

The realignment of our sales and service teams could adversely affect client relationships.

We recently realigned our sales and service teams in an effort to improve client service. This change combines and aligns our sales and services teams into multiple geographic regions and fully integrates our sales,

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services and client management resources into a single team that is closer to the client and accountable for ensuring excellent client service. As a result of this realignment, many of our clients have experienced a change in the Allscripts sales and service employees with whom they interact. While we believe that these changes will improve our clients experience overall, it is possible that they could adversely impact individual client relationships, client retention and sales of products and services to existing clients. In addition, it is possible that changes in our sales teams could adversely affect our ability to sell our products and services to new customers, which could have an adverse effect on our business, financial condition and results of operations.

If physicians and hospitals do not accept our products and services, or delay in deciding whether to purchase our products and services, our business, financial condition and results of operations will be adversely affected.

Our business model depends on our ability to sell our products and services. Acceptance of our products and services requires physicians and hospitals to adopt different behavior patterns and new methods of conducting business and exchanging information. We cannot provide assurance that physicians and hospitals will integrate our products and services into their workflow or that participants in the healthcare market will accept our products and services as a replacement for traditional methods of conducting healthcare transactions. Achieving market acceptance for our products and services will require substantial sales and marketing efforts and the expenditure of significant financial and other resources to create awareness and demand by participants in the healthcare industry. If we fail to achieve broad acceptance of our products and services by physicians, hospitals and other healthcare industry participants, or if we fail to position our services as a preferred method for information management and healthcare delivery, our business, financial condition and results of operations will be adversely affected.

We may not see the benefits of government programs initiated to accelerate the adoption and utilization of health information technology and to counter the effects of the current economic situation.

While government programs have been initiated to improve the efficiency and quality of the healthcare sector and also counter the effects of the current economic situation, including expenditures to stimulate business and accelerate the adoption and utilization of health care technology, we cannot provide assurance that we will receive any of those funds. For example, the passage of the Health Information Technology for Economic and Clinical Health Act, or HITECH, under the American Recovery and Reinvestment Act of 2009 (ARRA) authorizes what is expected to be up to almost $30 billion in expenditures, including discretionary funding, to further adoption of electronic health records. Although we believe that our service offerings will meet the requirements of the HITECH Act in order for our clients to qualify for financial incentives for implementing and using our services, there can be no certainty that the planned financial incentives, if made, will be made in regard to our services. We also cannot predict the speed at which physicians will adopt electronic health record systems in response to such government incentives, whether physicians will select our products and services or whether physicians will implement an electronic health record system at all. Any delay in the purchase and implementation of electronic health records systems by physicians in response to government programs, or the failure of physicians to purchase an electronic health record system, could have an adverse effect on our business, financial condition and results of operations. It is also possible that Congress will repeal or not fund HITECH or otherwise amend it in a manner that would be unfavorable to our business.

Our integration of the legacy Eclipsys business continues to be a complicated undertaking, which presents risks and expenses.

The success of the Eclipsys Merger depends, in part, on the ability to realize the anticipated synergies, growth opportunities and cost savings from integrating Eclipsys legacy business with our other business segments. The integration of the two businesses continues to be a complex, costly and time-consuming process and involves numerous risks, including difficulties in the assimilation of operations, services, products and personnel, the diversion of management s attention from other business concerns, the entry into markets in which we have little or no direct prior experience, the potential loss of our key employees, and the potential inability to maintain the goodwill of existing clients.

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If management is unable to successfully combine our businesses in a manner that permits us to achieve the cost savings and operating synergies anticipated to result from the Eclipsys Merger, such anticipated benefits of the Eclipsys Merger may not be realized fully or at all or may take longer to realize than expected. Any of the described difficulties could adversely affect our ability to maintain relationships with customers, partners, suppliers and employees or our ability to achieve the anticipated benefits of the Eclipsys Merger, or could reduce our earnings or otherwise adversely affect our business and financial results.

Our failure to compete successfully could cause our revenue or market share to decline.

The market for our products and services is intensely competitive and is characterized by rapidly evolving technology and product standards, technology and user needs and the frequent introduction of new products and services. Some of our competitors may be more established, benefit from greater name recognition and have substantially greater financial, technical and marketing resources than us. Moreover, we expect that competition will continue to increase as a result of potential incentives provided by the Stimulus and as a result of consolidation in both the information technology and healthcare industries. If one or more of our competitors or potential competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. We compete on the basis of several factors, including:

- breadth and depth of services, including the level of product integration;
- reputation;
- reliability, accuracy and security;
- client service;
- price; and
- industry expertise and experience.

Our principal existing competitors in the physician healthcare information systems and services market include Aprima Medical Software (formerly iMedica Corporation), Athenahealth, Inc., Cerner Corporation, eClinicalWorks Inc., Emdeon Business Services LLC, Epic Systems Corporation, General Electric Company, Greenway Medical Technologies, McKesson Corporation, Quality Systems, Inc., Sage Software, Inc., The Trizetto Group, Inc., and Wellsoft Corporation.

Our principal existing competitors in the hospital and post-acute healthcare information systems and services market include Cerner Corporation, eDischarge, Epic Systems Corporation, General Electric Company, Maxsys Ltd., McKesson Corporation, MedHost, Meditech, Midas+, Picis, ProviderLink, Quadramed, Siemens AG and WellSoft.

There can be no assurance that we will be able to compete successfully against current and future competitors or that the competitive pressures that we face will not materially adversely affect our business, financial condition and results of operations.

It is difficult to predict the sales cycle and implementation schedule for our software solutions.

The duration of the sales cycle and implementation schedule for our software solutions depends on a number of factors, including the nature and size of the potential customer and the extent of the commitment being made by the potential customer, which is difficult to predict. Our sales and marketing efforts with respect to hospitals and large health organizations generally involve a lengthy sales cycle due to these organizations complex decision-making processes. Additionally, in light of increased government involvement in healthcare, and related changes in the operating environment for healthcare organizations, our current and potential customers may react by curtailing or deferring investments, including those for our services. If potential customers take longer than we expect to decide whether to purchase our solutions, our selling

expenses could

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increase and our revenues could decrease, which could harm our business, financial condition and results of operations. If customers take longer than we expect to implement our solutions, our recognition of related revenue would be delayed, which would adversely affect our business, financial condition and results of operations.

Our future success depends upon our ability to grow, and if we are unable to manage our growth effectively, we may incur unexpected expenses and be unable to meet our customers requirements.

We will need to expand our operations if we successfully achieve market acceptance for our products and services. We cannot be certain that our systems, procedures, controls and existing space will be adequate to support expansion of our operations. Our future operating results will depend on the ability of our officers and key employees to manage changing business conditions and to implement and improve our technical, administrative, financial control and reporting systems. We may not be able to expand and upgrade our systems and infrastructure to accommodate these increases. Difficulties in managing any future growth, including as a result of the Eclipsys Merger, could have a significant negative impact on our business, financial condition and results of operations because we may incur unexpected expenses and be unable to meet our customers requirements.

Competition for our employees is intense, and we may not be able to attract and retain the highly skilled employees we need to support our business.

Our ability to provide high-quality services to our clients depends in large part upon our employees experience and expertise. We must attract and retain highly qualified personnel with a deep understanding of the healthcare and health information technology industries. We compete with a number of companies for experienced personnel and many of these companies, including clients and competitors, have greater resources than we have and may be able to offer more attractive terms of employment. In addition, we invest significant time and expense in training our employees, which increases their value to clients and competitors who may seek to recruit them and increases the costs of replacing them. If we fail to retain our employees, the quality of our services could diminish, which could have a material adverse effect on our business, financial condition and results of operations.

If we lose the services of our key personnel, we may be unable to replace them, and our business, financial condition and results of operations could be adversely affected.

Our success largely depends on the continued skills, experience, efforts and strategies of our management, technical and product design staff and other key personnel and our ability to continue to attract, motivate and retain highly qualified employees. Because competition for skilled employees is intense, and the process of finding qualified individuals can be lengthy and expensive, we believe that the loss of the services of key personnel could adversely affect our business, financial condition and results of operations. We cannot provide assurance that we will continue to retain such personnel. We do not maintain keyman insurance for any of our key employees.

If we are unable to successfully introduce new products or services or fail to keep pace with advances in technology, our business, financial condition and results of operations will be adversely affected.

The successful implementation of our business model depends on our ability to adapt to evolving technologies and increasingly aggressive industry standards and introduce new products and services accordingly. We cannot provide assurance that we will be able to introduce new products on schedule, or at all, or that such products will achieve market acceptance. Moreover, competitors may develop competitive products that could adversely affect our results of operations. A failure by us to introduce planned products or other new products or to introduce these products on schedule could have an adverse effect on our business, financial condition and results of operations.

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If we cannot adapt to changing technologies, our products and services may become obsolete, and our business could suffer. Because the health information technology market is characterized by rapid technological change, we may be unable to anticipate changes in our current and potential customers requirements that could make our existing technology obsolete. Our success will depend, in part, on our ability to continue to enhance our existing products and services, develop new technology that addresses the increasingly sophisticated and varied needs of our prospective customers, license leading technologies and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of our proprietary technology entails significant technical and business risks. We may not be successful in using new technologies effectively or adapting our proprietary technology to evolving customer requirements or emerging industry standards, and, as a result, our business could suffer.

Our business depends in part on our ability to establish and maintain additional strategic relationships.

To be successful, we must continue to maintain our existing strategic relationships and establish additional strategic relationships with leaders in a number of healthcare and health information technology industry segments. This is critical to our success because we believe that these relationships contribute towards our ability to:

- extend the reach of our products and services to a larger number of physicians and hospitals and to other participants in the healthcare industry;
- develop and deploy new products and services;
- further enhance the Allscripts brand; and
- generate additional revenue and cash flows.

Entering into strategic relationships is complicated because strategic partners may decide to compete with us in some or all of our markets. In addition, we may not be able to maintain or establish relationships with key participants in the healthcare industry if we conduct business with their competitors. We depend, in part, on our strategic partners ability to generate increased acceptance and use of our products and services. If we lose any of these strategic relationships or fail to establish additional relationships, or if our strategic relationships fail to benefit us as expected, we may not be able to execute our business plan, and our business, financial condition and results of operations may suffer.

Future acquisitions may result in potentially dilutive issuances of equity securities, the incurrence of indebtedness, increased amortization expense and may not achieve the anticipated benefits of the transaction.

Future acquisitions may result in dilutive issuances of equity securities, the incurrence of debt, the assumption of known and unknown liabilities, and the amortization of expenses related to intangible assets. In addition, acquisitions may result in the diversion of management attention and other resources, and may not achieve the anticipated benefits of the transaction. Each of the foregoing could have an adverse effect on our business, financial condition and results of operations. We have taken, and, if an impairment occurs, could take, charges against earnings in connection with acquisitions. On March 4, 2013, we completed the acquisition of dbMotion, in which we issued 3,823,453 shares of common stock, par value $0.01 per share, and borrowed $130 million under our revolving credit facility to fund a portion of the purchase price. There can be no assurance that we will achieve the anticipated strategic benefits of the acquisition.

If our products fail to perform properly due to errors or similar problems, our business could suffer.

Complex software, such as ours, often contains defects or errors, some of which may remain undetected for a period of time. It is possible that such errors may be found after the introduction of new software or enhancements to existing software. We continually introduce new solutions and enhancements to our solutions, and, despite testing by us, it is possible that errors may occur in our software. If we detect any errors before we introduce a solution, we might have to delay deployment for an extended period of time while we address the

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problem. If we do not discover software errors that affect our new or current solutions or enhancements until after they are deployed, we would need to provide enhancements to correct such errors. Errors in our software could result in:

- harm to our reputation;
- lost sales;
- delays in commercial releases;
- product liability claims or patient safety issues;
- delays in or loss of market acceptance of our solutions;
- license terminations or renegotiations;
- unexpected expenses and diversion of resources to remedy errors; and
- privacy and/or security vulnerabilities.

Furthermore, our customers might use our software together with products from other companies or those that they have developed internally. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our software does not cause these problems, the existence of these errors might cause us to incur significant costs, divert the attention of our technical personnel from our solution development efforts, impact our reputation and cause significant customer relations problems.

Our business depends on our intellectual property rights, and if we are unable to protect them, our competitive position may suffer.

Our business plan is predicated on our proprietary systems and technology products. Accordingly, protecting our intellectual property rights is critical to our continued success and our ability to maintain our competitive position. In addition to existing trademark, trade secret and copyright law, we protect our proprietary rights through confidentiality agreements and technical measures. Allscripts also has a patent program where we identify and seek patent protections on certain technologies. We generally enter into non-disclosure and assignment agreements with our employees and consultants and limit access to our trade secrets and technology. Nonetheless, in some instances, third parties may have access to source-code versions of software. Furthermore, our use and distribution of open source software and modules in connection with our business also presents risks. Open source commonly refers to software whose source code is subject to a license allowing it to be modified, combined with other software and redistributed, subject to restrictions set forth in the license. We cannot be certain that, under the terms of those licenses, our software will be found to be in material compliance with such agreements or that it might subject the company to claims of infringement. We cannot provide assurance that the steps we have taken have prevented or will prevent misappropriation of our technology. Misappropriations of our intellectual property have occurred in the past. Misappropriation of our intellectual property could have an adverse effect on our competitive position. In addition, we may have to engage in litigation in the future to enforce or protect our intellectual property rights or to defend against claims of infringement, misappropriation or other violations of third-party intellectual property rights. We may incur substantial costs and the diversion of management s time and attention as a result and an adverse decision could have a negative impact on our business.

If we are deemed to infringe, misappropriate or violate the proprietary rights of third parties, we could incur unanticipated expense and be prevented from providing our products and services.

We are and may continue to be subject to intellectual property infringement, misappropriation or other intellectual property violation claims as our applications functionality overlaps with competitive products and third parties may claim that we do not own or have rights to use all intellectual property rights used in the conduct of our business. We do not believe that we have infringed or are infringing on any valid or enforceable proprietary rights of third parties. However, claims are occasionally asserted against us, and we cannot provide

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assurance that infringement, misappropriation or claims alleging intellectual property violations will not be asserted against us in the future. Also, we cannot provide assurance that any such claims will be unsuccessful. We could incur substantial costs and diversion of management resources defending any such claims. Furthermore, a party making a claim against us could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to provide products or services. In addition, we cannot provide assurance that licenses for any intellectual property of third parties that might be required for our products or services will be available on commercially reasonable terms, or at all. Such claims also might require indemnification of our clients at significant expense.

We are and in the future may be involved in legal proceedings that could materially adversely affect us.

We are currently engaged in legal proceedings on a variety of matters and additional claims or disputes may arise in the future. Results of legal proceedings are subject to significant uncertainty and, regardless of the merit of the claims, litigation may be expensive, time-consuming, disruptive to our operations and distracting to management. If one or more of these matters were resolved against us, it could have a material adverse impact on our business, financial condition, results of operations or cash flows. Legal proceedings could also result in consent decrees, criminal sanctions or orders requiring a change in our business practices, which could also adversely affect our business and results of operations. For additional information regarding certain legal proceedings in which we are involved, see Note 19, Contingencies, of the Notes to Consolidated Financial Statements in Part II, Item 8 of this report.

If our content and service providers fail to perform adequately, or to comply with laws, regulations or contractual covenants, our reputation and our business, financial condition and results of operations could be adversely affected.

We depend on independent content and service providers for communications and information services and for many of the benefits we provide through our software applications and services, including the maintenance of managed care pharmacy guidelines, drug interaction reviews, the routing of transaction data to third-party payers and the hosting of our applications. Our ability to rely on these services could be impaired as a result of the failure of such providers to comply with applicable laws, regulations and contractual covenants, or as a result of events affecting such providers, such as power loss, telecommunication failures, software or hardware errors, computer viruses and similar disruptive problems, fire, flood and natural disasters. Any such failure or event could adversely affect our relationships with our customers and damage our reputation. This would adversely affect our business, financial condition and results of operations. In addition, we may have no means of replacing content or services on a timely basis or at all if they are inadequate or in the event of a service interruption or failure. We also rely on independent content providers for the majority of the clinical, educational and other healthcare information that we provide. In addition, we depend on our content providers to deliver high quality content from reliable sources and to continually upgrade their content in response to demand and evolving healthcare industry trends. If these parties fail to develop and maintain high quality, attractive content, the value of our brand and our business, financial condition and results of operations could be impaired.

We may be liable for use of content we provide.

We provide content for use by healthcare providers in treating patients. Third-party content suppliers provide certain of this content. If this content is incorrect or incomplete, adverse consequences, including death, may occur and give rise to product liability and other claims against us. In addition, certain of our solutions provide applications that relate to patient clinical information, and a court or government agency may take the position that our delivery of health information directly, including through licensed practitioners, or delivery of information by a third party site that a consumer accesses through our websites, exposes us to personal injury liability, or other liability for wrongful delivery or handling of healthcare services or erroneous health information. While we maintain product liability insurance coverage in an amount that we believe is sufficient for our business, we cannot provide assurance that this coverage will prove to be adequate or will continue to be available on acceptable terms, if at all. A claim that is brought against us that is uninsured or under-insured could

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harm our business, financial condition and results of operations. Even unsuccessful claims could result in substantial costs and diversion of management resources.

If our security is breached, we could be subject to liability, and customers could be deterred from using our products and services.

Our business relies on the secure electronic transmission, storage, and hosting of sensitive information, including protected health information, financial information, and other sensitive information relating to our customers, company and workforce. As a result, we face some risk of a deliberate or unintentional incident involving unauthorized access to our computer systems or data that could result in the misappropriation or loss of assets or the disclosure of sensitive information, the corruption of data, or other disruption of our business operations. Similarly, denial-of-service or other Internet-based attacks may range from mere vandalism of our electronic systems to systematic theft of sensitive information and intellectual property.

In light of this risk, we have devoted and continue to devote significant resources to protecting and maintaining the confidentiality of this information, including implementing security and privacy programs and controls, training our workforce, and implementing new technology. We have no guarantee that these programs and controls will be adequate to prevent all possible security threats. We believe that any compromise of our electronic systems, including the unauthorized access, use or disclosure of sensitive information or a significant disruption of our computing assets and networks, would adversely affect our reputation, our ability to fulfill contractual obligations, and would require us to devote significant financial and other resources to mitigate such problems, and increase our future cybersecurity costs including through organizational changes, deploying additional personnel and protection technologies, further training employees, and engaging third party experts and consultants. Moreover, unauthorized access, use, or disclosure of such sensitive information could result in civil or criminal liability or regulatory action, including potential fines and penalties. In addition, any real or perceived compromise of our security or disclosure of sensitive information, may result in lost revenues by, deterring customers from using or purchasing our products and services in the future or to use competing suppliers.

In addition, we use third-party contractors, to store, transmit, or host sensitive information for our customers. While we have contractual relationships with these third-party contractors that require them to have appropriate security programs and controls in place and, frequently, to indemnify us, any compromise or failure of these contractors security, could adversely affect our reputation, require us to devote financial and other resources to mitigate these breaches, or subject us to litigation from our customers.

Recently, other companies have experienced many high profile incidents involving data security breaches by entities that transmit and store sensitive information. Lawsuits resulting from these security breaches have sought very significant monetary damages, although many of these suits have yet to be resolved. While we maintain some insurance to cover these types of damages and costs, if we are sued for this type of security breach it is uncertain whether this coverage would be sufficient to cover the costs or damages assessed in this type of lawsuit against us.

If we are unable to obtain additional financing for our future needs, our ability to respond to competitive pressures may be impaired and our business, financial condition and results of operations could be adversely affected.

We cannot be certain that additional financing will be available to us on favorable terms, or at all. If adequate financing is not available or is not available on acceptable terms, our ability to fund our expansion, take advantage of potential acquisition opportunities, develop or enhance services or products, or respond to competitive pressures would be significantly limited.

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If we are forced to reduce our prices, our business, financial condition and results of operations could suffer.

We may be subject to pricing pressures with respect to our future sales arising from various sources, including practices of managed care organizations, group purchasing arrangements made through government programs such as the Regional Extension Centers, and government action affecting reimbursement levels affecting physicians, hospitals, home health professionals or any combination thereof under Medicare, Medicaid and other government health programs. Our customers and the other entities with which we have a business relationship are affected by changes in statutes, regulations and limitations in governmental spending for Medicare, Medicaid and other programs. Recent government actions and future legislative and administrative changes could limit government spending for the Medicare and Medicaid programs, limit payments to hospitals and other providers, increase emphasis on competition, impose price controls, initiate new and expanded value-based reimbursement programs and create other programs that potentially could have an adverse effect on our customers and the other entities with which we have a business relationship. If our pricing experiences significant downward pressure, our business will be less profitable and our results of operations would be adversely affected. In addition, because cash from sales funds some of our working capital requirements, reduced profitability could require us to raise additional capital sooner than we would otherwise need.

If we incur costs exceeding our insurance coverage in lawsuits pending against us or that are brought against us in the future, it could adversely affect our business, financial condition and results of operations.

We are a defendant in lawsuits arising in the ordinary course of business. In the event we are found liable in any lawsuits filed against us, and if our insurance coverage were unavailable or inadequate to satisfy these liabilities, it could have an adverse effect on our business, financial condition and results of operations.

Our failure to license and integrate third-party technologies could harm our business.

We depend upon licenses for some of the technology used in our solutions from third-party vendors, and intend to continue licensing technologies from third parties. These technologies might not continue to be available to us on commercially reasonable terms or at all. Most of these licenses can be renewed only by mutual consent and may be terminated if we breach the terms of the license and fail to cure the breach within a specified period of time. Our inability to obtain, maintain or comply with any of these licenses could delay development until equivalent technology can be identified, licensed and integrated, which would harm our business, financial condition and results of operations.

Most of our third-party licenses are non-exclusive and our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us. Our use of third-party technologies exposes us to increased risks, including, but not limited to, risks associated with the integration of new technology into our solutions, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs. In addition, if our vendors choose to discontinue support of the licensed technology in the future or are unsuccessful in their continued research and development efforts, we might not be able to modify or adapt our own solutions.

If we fail to maintain and expand our business with our existing customers, or to effectively transition our customers to newer products, our business, financial condition and results of operations could be adversely affected.

Our business model depends on our success with maintaining our existing customers and selling follow-on and incremental products and services to our existing customers. In addition, our success with certain clients requires our achieving interoperability among the products offered by legacy Allscripts and legacy Eclipsys to provide a single solution that connects healthcare providers across care settings. Also critical to our success is our ability to sell our electronic health record products to our legacy entities practice management customer base.

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Additionally, certain of our clinical solutions business unit customers initially purchase one or a limited number of our products and services. These customers might choose not to expand their use of, or purchase, additional modules. Also, as we deploy new applications and features for our existing solutions or introduce new solutions and services, our current customers could choose not to purchase these new offerings. If we fail to generate additional business from our current customers, our revenue could grow at a slower rate or even decrease.

In addition, the transition of our existing customers to current versions of our products presents certain risks, including the risk of data loss or corruption, or delays in completion. If such events occur, our client relationships and reputation could be damaged, which could adversely affect our business and results of operations.

Changes in interoperability and other regulatory standards applicable to our software could require us to incur substantial additional development costs.

Our clients and the industry leaders enacting regulatory requirements are concerned with and often require that our software solutions be interoperable with other third party health IT suppliers. Market forces or governmental/regulatory authorities could create software interoperability standards that would apply to our solutions, and if our software solutions and/or healthcare devices are not consistent with those standards, we could be forced to incur substantial additional development costs. HITECH, which is part of ARRA, provides financial incentives to hospitals and doctors who demonstrate that they are meaningful electronic health record users, including a requirement that they use health information technology systems that are certified according to a set of standards for functionality, interoperability and security developed under the supervision of the Secretary of the Department of Health and Human Services. HITECH also imposes certain requirements upon governmental agencies to use, and requires health care providers, health plans, and insurers contracting with such agencies to use, systems that are certified according to such standards. The Secretary of the Department of Health and Human Services continues to modify those standards. Achieving HITECH certification is becoming a competitive requirement, resulting in increased software development and administrative expense to conform to these requirements. These standards and specifications, once finalized, will be subject to interpretation by the entities designated to test and certify such technology.

We will incur increased development costs in delivering solutions to upgrade our software and healthcare devices to be in compliance with these varying and evolving standards, and delays may result in connection therewith. If our software solutions are not consistent with these evolving standards, our market position and sales could be impaired and we may have to invest significantly in changes to our software solutions, although we do not expect such costs to be significant in relation to the overall development costs for our solutions.

Changes in CMS diagnosis and inpatient procedure coding require us to make modifications to our products and services, which could result in significant development costs and which if unsuccessful could adversely affect our sales.

The Centers for Medicare and Medicaid Services, or CMS, has mandated the use of new patient codes for reporting medical diagnosis and inpatient procedures, referred to as the ICD-10 codes. CMS is requiring all providers, payers, clearinghouses, and billing services to utilize these ICD-10 codes when submitting claims for payment. ICD-10 codes will affect diagnosis and inpatient procedure coding for everyone covered by the Health Insurance Portability and Accountability Act (HIPAA), not just those who submit Medicare or Medicaid claims. Claims for services provided on or after October 1, 2013 must use ICD-10 codes for medical diagnosis and inpatient procedures or they will not be paid.

If our products and services do not accommodate CMS mandates at any future date, customers may cease to use those products and services that are not compliant or may choose alternative vendors and products that are compliant. This could adversely impact future revenues.

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We are subject to a number of existing laws, regulations and industry initiatives, non-compliance with certain of which could materially adversely affect our operations or otherwise adversely affect our business, financial condition and results of operations, and we are susceptible to a changing regulatory environment.

As a participant in the healthcare industry, our operations and relationships, and those of our customers, are regulated by a number of federal, state and local governmental entities. The impact of this regulation on us is direct, to the extent we are ourselves subject to these laws and regulations, and is also indirect in that, in a number of situations, even though we may not be directly regulated by specific healthcare laws and regulations, our products must be capable of being used by our customers in a manner that complies with those laws and regulations. Inability of our customers to do so could affect the marketability of our products or our compliance with our customer contracts, or even expose us to direct liability under the theory that we had assisted our customers in a violation of healthcare laws or regulations. Because our business relationships with physicians, hospitals and other provider customers are unique and the healthcare information technology industry as a whole is relatively young, the application of many state and federal regulations to our business operations and to our customers is uncertain. Indeed, there are federal and state fraud and abuse laws, including anti-kickback laws and limitations on physician referrals, and laws related to distribution and marketing, including off-label promotion of prescription drugs that may be directly or indirectly applicable to our operations and relationships or the business practices of our customers. It is possible that a review of our business practices or those of our customers by courts or regulatory authorities could result in a determination that could adversely affect us. In addition, the healthcare regulatory environment may change in a way that restricts our existing operations or our growth. The healthcare industry generally and the EHR industry specifically is expected to continue to undergo significant legal and regulatory changes for the foreseeable future, which could have an adverse effect on our business, financial condition and results of operations. We cannot predict the effect of possible future enforcement, legislation and regulation.

Specific risks include, but are not limited to, risks relating to:

Healthcare Fraud. Federal and state governments continue to enhance regulation of and increase their scrutiny over practices involving healthcare fraud affecting healthcare providers and professionals whose services are reimbursed by Medicare, Medicaid and other government healthcare programs. The healthcare industry is subject to laws and regulations on fraud and abuse which, among other things, prohibit the direct or indirect payment or receipt of any remuneration for patient referrals, or for the purchase or order, or arranging for or recommending referrals or purchases, of any item or service paid for in whole or in part by these federal or state healthcare programs. Federal enforcement personnel have substantial funding, powers and remedies to pursue suspected or perceived fraud and abuse. Moreover, both federal and state laws forbid bribery and similar behavior. Any determination by a regulatory, prosecutorial or judicial authority that any of our activities involving our clients, vendors or channel partners violate any of these laws could subject us to civil or criminal penalties, require us to change or terminate some portions of our business, require us to refund a portion of our license or service fees and disqualify us from providing services to clients doing business with government programs, all of which could have a material adverse effect on our business, financial condition and results of operations. Even an unsuccessful challenge by regulatory or prosecutorial authorities of our activities could result in adverse publicity, could require a costly response from us and could have a material adverse effect on our business, financial condition and results of operations.

Patient Information. As part of the operation of our business, our customers provide to us patient-identifiable medical information related to the prescription drugs that they prescribe and other aspects of patient treatment. Government and industry legislation and rulemaking, especially HIPAA, HITECH and standards and requirements published by industry groups such as the Joint Commission on Accreditation of Healthcare Organizations, require the use of standard transactions, standard identifiers, security and other standards and requirements for the transmission of certain electronic health information. National standards and procedures under HIPAA include the Standards for Electronic

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Transactions and Code Sets (the Transaction Standards); the Security Standards (the Security Standards); and the Standards for Privacy of Individually Identifiable Health Information (the Privacy Standards). The Transaction Standards require the use of specified data coding, formatting and content in all specified Health Care Transactions conducted electronically. The Security Standards require the adoption of specified types of security measures for certain patient identifiable health information (called Protected Health Information) in electronic form. The Privacy Standards grant a number of rights to individuals as to their Protected Health Information and restrict the use and disclosure of Protected Health Information by Covered Entities, defined as health plans, health care providers, and health care clearinghouses.

We have reviewed our activities and believe that we are a Covered Entity to the extent that we maintain a group health plan for the benefit of our employees. We have taken steps we believe to be appropriate and required to bring our group health plan into compliance with HIPAA and HITECH. For our operating functions, we believe that we are a hybrid entity, with both covered and non-covered functions under HIPAA. The Payerpath portion of our business qualifies as a health care clearinghouse when it files electronic health care claims on behalf of health care providers that are subject to HIPAA and HITECH and we have instituted policies and procedures to comply with HIPAA and HITECH in that role.

With respect to our other business functions, we do not believe we are a Covered Entity as a health care provider or as a health care clearinghouse; however, the definition of a health care clearinghouse is broad and we cannot offer any assurance that we could not be considered a health care clearinghouse under HIPAA or that, if we are determined to be a healthcare clearinghouse, the consequences would not be adverse to our business, financial condition and results of operations. In addition, certain provisions of the Privacy and Security Standards apply to third parties that create, access, or receive Protected Health Information in order to perform a function or activity on behalf of a Covered Entity. Such third parties are called Business Associates. Covered Entities and Business Associates must enter a written Business Associate Agreement , containing specified written satisfactory assurances, consistent with the Privacy and Security Standards and HITECH and its implementing regulations, that the third party will safeguard Protected Health Information that it creates or accesses and will fulfill other material obligations. Most of our customers are Covered Entities, and we function in many of our relationships as a Business Associate of those customers. We would face liability under our Business Associate Agreements and HIPAA and HITECH if we do not comply with our Business Associate obligations and applicable provisions of the Privacy and Security Standards and HITECH and its implementing regulations. The penalties for a violation of HIPAA or HITECH are significant and could have an adverse impact upon our business, financial condition and results of operations, if such penalties ever were imposed.

Subject to the discussion set forth above, we believe that the principal effects of HIPAA are, first, to require that our systems be capable of being operated by us and our customers in a manner that is compliant with the Transaction, Security and Privacy Standards and, second, to require us to enter into and comply with Business Associate Agreements with our Covered Entity customers. For most Covered Entities, the deadlines for compliance with the Privacy Standards and the Transaction Standards occurred in 2003, and for the Security Standards occurred in 2005.

Additionally, Covered Entities that are providers are required to adopt a unique standard National Provider Identifier, or NPI, for use in filing and processing health care claims and other transactions. Most Covered Entities were required to use NPIs in standard transactions by May 23, 2007.

We have policies and procedures that we believe comply with federal and state confidentiality requirements for the handling of Protected Health Information that we receive and with our obligations under Business Associate Agreements. In particular, we believe that our systems and products are capable of being used by or for our customers in compliance with the Transaction, Security and Privacy Standards and are capable of being used by or for our customers in compliance with the NPI

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requirements. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent the unauthorized disclosure of Protected Health Information, we could be subject to civil and/or criminal liability, fines and lawsuits, termination of our customer contracts or our operations could be shut down. Moreover, because all HIPAA Standards and HITECH implementing regulations and guidance are subject to change or interpretation, we cannot predict the full future impact of HIPAA, HITECH or their implementing regulations on our business and operations. In the event that HIPAA, HITECH or their implementing regulations change or are interpreted in a way that requires any material change to the way in which we do business, our business, financial condition and results of operations could be adversely affected. Additionally, certain state privacy laws are not preempted by HIPAA and HITECH and may impose independent obligations upon our customers or us. Additional legislation governing the acquisition, storage and transmission or other dissemination of health record information and other personal information, including social security numbers, continues to be proposed and come into force at the state level. There can be no assurance that changes to state or federal laws will not materially restrict the ability of providers to submit information from patient records using our products and services.

On January 25, 2013, the Federal Register published the final omnibus rules of the U.S. Department of Health and Human Services (HHS) which modify the HIPAA Privacy, Security, Breach Notification and Enforcement Rules. These rules impose additional obligations and burdens on covered entities, business associates and subcontractors relating to the privacy and security of Protected Health Information. Much of the Privacy and all of the Security Rule now applies directly to business associates and their subcontractors. These new rules may increase the cost of compliance and could subject us to additional enforcement actions.

Electronic Prescribing. The use of our software by physicians to perform a variety of functions, including electronic prescribing (ePrescribing), which refers to the electronic routing of prescriptions to pharmacies and the ensuing dispensation, is governed by state and federal law, including fraud and abuse laws. States have differing prescription format requirements, which we have programmed into our software. Many existing laws and regulations, when enacted, did not anticipate methods of e-commerce now being developed. While federal law and the laws of many states permit the electronic transmission of certain prescription orders, the laws of several states neither specifically permit nor specifically prohibit the practice. Restrictions exist at the Federal level, however, on the use of ePrescribing for controlled substances and certain other drugs, including a new regulation enacted by the Drug Enforcement Association (DEA) in mid-2010. Given the rapid growth of electronic transactions in healthcare, and particularly the growth of the Internet, we expect many additional states to directly address these areas with regulation in the near future. In addition, the Department of Health and Human Services published its final E-Prescribing and the Prescription Drug Program regulations on November 7, 2005 (effective January 1, 2006), and final regulations governing the standards for ePrescribing Under Medicare Part D on April 7, 2008 (effective June 6, 2008) (E-Prescribing Regulations). These regulations are required by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). The E-Prescribing Regulations consist of detailed standards and requirements, in addition to the HIPAA Standard discussed above, for prescription and other information transmitted electronically in connection with a drug benefit covered by the MMA s Prescription Drug Benefit. These standards cover not only transactions between prescribers and dispensers for prescriptions but also electronic eligibility and benefits inquiries and drug formulary and benefit coverage information. The standards apply to prescription drug plans participating in the MMA s Prescription Drug Benefit. Other rules governing ePrescribing apply to other areas of Medicare and to Medicaid. The Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) authorized a new and separate incentive program for individual eligible professionals who are successful electronic prescribers as defined by MIPPA, as well as a set of penalties for those not transmitting a minimum number of electronic prescriptions or participating in the Electronic Health Record Incentive Program (Meaningful Use). This incentive program is separate from and is in addition to the quality reporting incentive program authorized by Division B of the Tax Relief and Health Care Act of 2006 Medicare Improvements and Extension Act of 2006 and which is now known as the Physician

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Quality Reporting System (PQRS). Eligible professionals do not need to participate in PQRS to participate in the ePrescribing Incentive Program. Both programs were in effect throughout 2012 and remain in effect for 2013, with both generating payment adjustments for non-participating providers. To the extent that these new initiatives and regulations foster the accelerated adoption of ePrescribing and Allscripts is a leader in the ePrescribing space, our business benefits from these incentive programs. However HITECH is the most prominent incentive program since its passage, reducing the impact the MIPPA and PQRS programs have in spurring greater adoption of ePrescribing or other health information technology.

In general, regulations in this area impose certain requirements which can be burdensome and evolve regularly, meaning that any potential benefits may be reversed by a newly-promulgated regulation that adversely affects our business model. Aspects of our clinical products are affected by such regulation because of the need of our customers to comply, as discussed above. Compliance with these regulations could be burdensome, time-consuming and expensive. We also are subject, as discussed above, to future legislation and regulations concerning the development and marketing of healthcare software systems or requirements related to product functionality. These could increase the cost and time necessary to market new services and could affect us in other respects not presently foreseeable.

Electronic Health Records. A number of important federal and state laws govern the use and content of electronic health record systems, including fraud and abuse laws that may affect the donation of such technology. As a company that provides electronic health record systems to a variety of providers of healthcare, our systems and services must be designed in a manner that facilitates our customers compliance with these laws. Because this is a topic of increasing state and federal regulation, we continue to monitor legislative and regulatory developments that might affect our business practices as they relate to electronic health record systems, revenue cycle management systems, ePrescribing and others. We cannot predict the content or effect of possible future regulation on our business practices. Also, as described above under Risks Related to Our Business, our Sunrise Clinical Manager suite of solutions, Allscripts ED, Allscripts Enterprise EHR, modular and complete, Allscripts Professional EHR, Allscripts MyWay EHR and Allscripts PeakPractice EHR are all certified by an ONC-approved certifying body as meeting the standards for functionality, interoperability and security under HITECH. Our failure to maintain this certification or otherwise meet industry standards would adversely impact our business.

Under HITECH, eligible health care professionals and hospitals may qualify for Medicare and Medicaid payment for the Meaningful Use of certified electronic health record technology that meets specified objectives. The criteria for meaningful use will be staged in at least three stages over the course of several years. Ongoing compliance with regulations related to this evolving program could be expensive and time-consuming.

Claims Transmission. Our system electronically transmits medical claims by physicians to patients payers for immediate approval and reimbursement In addition, we offer revenue cycle management services that include the manual and electronic processing and submission of medical claims by physicians to patients payers for approval and reimbursement. Federal law provides that it is both a civil and a criminal violation for any person to submit, or cause to be submitted, a claim to any payer, including, without limitation, Medicare, Medicaid and all private health plans and managed care plans, seeking payment for any services or products that overbills or bills for items that have not been provided to the patient. We have in place policies and procedures that we believe assure that all claims that are transmitted by our system and through our services are accurate and complete, provided that the information given to us by our customers is also accurate and complete. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent inaccurate claims from being submitted, we could be subject to liability. As discussed above, the HIPAA Transaction and Security Standards also affect our claims transmission services, since those services must be structured and provided in a way that supports our customers HIPAA compliance obligations. Furthermore, to the extent that there is some type of information security breach, it could have a material adverse effect on our business.

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Medical Devices. Certain computer software products are regulated as medical devices under the Federal Food, Drug, and Cosmetic Act The FDA may become increasingly active in regulating computer software intended for use in healthcare settings. Depending on the product, we could be required to notify the FDA and demonstrate substantial equivalence to other products on the market before marketing such products or obtain FDA approval by demonstrating safety and effectiveness before marketing a product. Depending on the intended use of a device, the FDA could require us to obtain extensive data from clinical studies to demonstrate safety or effectiveness or substantial equivalence. If the FDA requires these data, we could be required to obtain approval of an investigational device exemption before undertaking clinical trials. Clinical trials can take extended periods of time to complete. We cannot provide assurances that the FDA will approve or clear a device after the completion of such trials. In addition, these products would be subject to the Federal Food, Drug and Cosmetic Act s general controls. The FDA can impose extensive requirements governing pre and post-market conditions like approval, labeling and manufacturing. The FDA can impose extensive requirements governing product design controls and quality assurance processes. Failure to comply with FDA requirements can result in criminal and civil fines and penalties, product seizure, injunction, and civil monetary policies each of which could have an adverse effect on our business.

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.

Increased government involvement in healthcare could adversely affect our business.

U.S. healthcare system reform at both the federal and state level could increase government involvement in healthcare, lower reimbursement rates and otherwise change the business environment of our customers and the other entities with which we have a business relationship. We cannot predict whether or when future healthcare reform initiatives at the federal or state level or other initiatives affecting our business will be proposed, enacted or implemented or what impact those initiatives may have on our business, financial condition or results of operations. Our customers and the other entities with which we have a business relationship could react to these initiatives and the uncertainty surrounding these proposals by curtailing or deferring investments, including those for our products and services. Additionally, the government has signaled increased enforcement activity targeting healthcare fraud and abuse, which could adversely impact our business, either directly or indirectly. To the extent that our customers, most of whom are providers, may be affected by this increased enforcement environment, our business could correspondingly be affected. Additionally, government regulation could alter the clinical workflow of physicians, hospitals and other healthcare participants, thereby limiting the utility of our products and services to existing and potential customers and curtailing broad acceptance of our products and services. Further examples of government involvement could include requiring the standardization of technology relating to electronic health records, providing customers with incentives to adopt electronic health record solutions or developing a low-cost government sponsored electronic health record solution, such as the VistA-Office electronic health record. Additionally, certain safe harbors to the federal Anti-Kickback Statute and

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corresponding exceptions to the federal Stark law may alter the competitive landscape. These safe harbors and exceptions are intended to accelerate the adoption of electronic prescription systems and electronic health records systems, and therefore provide new and attractive opportunities for us to work with hospitals and other donors who wish to provide our solutions to physicians. At the same time, such safe harbors and exceptions may result in increased competition from providers of acute electronic health record solutions, whose hospital customers may seek to donate their existing acute electronic health record solutions to physicians for use in ambulatory settings.

If the electronic healthcare information market fails to develop as quickly as expected, our business, financial condition and results of operations will be adversely affected.

The electronic healthcare information market is in the early stages of development and is rapidly evolving. A number of market entrants have introduced or developed products and services that are competitive with one or more components of the solutions we offer. We expect that additional companies will continue to enter this market, especially in response to recent government subsidies. In new and rapidly evolving industries, there is significant uncertainty and risk as to the demand for, and market acceptance of, recently introduced products and services. Because the markets for our products and services are new and evolving, we are not able to predict the size and growth rate of the markets with any certainty. We cannot provide assurance that markets for our products and services will develop or that, if they do, they will be strong and continue to grow at a sufficient pace. If markets fail to develop, develop more slowly than expected or become saturated with competitors, our business, financial condition and results of operations will be adversely affected.

Consolidation in the healthcare industry could adversely affect our business, financial condition and results of operations.

Many healthcare industry participants are consolidating to create integrated healthcare delivery systems with greater market power. As provider networks and managed care organizations consolidate, thus decreasing the number of market participants, competition to provide products and services like ours will become more intense, and the importance of establishing relationships with key industry participants will become greater. These industry participants may try to use their market power to negotiate price reductions for our products and services. Further, consolidation of management and billing services through integrated delivery systems may decrease demand for our products. If we were forced to reduce our prices, our business would become less profitable unless we were able to achieve corresponding reductions in our expenses.

Business disruptions could affect our operating results.

A significant portion of our research and development activities and certain other critical business operations are concentrated in a few geographic areas. We are a highly automated business and a disruption or failure of our systems could cause delays in completing sales and providing services. A major earthquake, fire or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be materially and adversely affected.

We may experience customer attrition and incur costs relating to the standardization of our small office electronic health record and practice management systems that could adversely affect our results of operations.

To serve our clients and the healthcare market better, in October 2012 we initiated 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 (Professional Suite). 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

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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 this decision, 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. Additionally, litigation against us has been filed related to the plan we have initiated. A December 2012 complaint seeks to certify a class of MyWay customers and seeks damages for claims of breach of warranty and unjust enrichment. A 2013 complaint filed by a distributor seeks damages for breach of contract. The costs associated with this upgrade initiative and litigation could exceed our expectations and, accordingly, adversely affect our results of operations.

Risks Related to Our International Business Strategy

Our growing operations in India expose us to risks that could have an adverse effect on our results of operations.

We have a significant workforce employed in India engaged in a broad range of development, support and corporate infrastructure activities that are integral to our business and critical to our profitability. Further, while there are certain cost advantages to operating in India, significant growth in the technology sector in India has increased competition to attract and retain skilled employees with commensurate increases in compensation costs. In the future, we may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure. Many of the companies with which we compete for hiring experienced employees have greater resources than we have and may be able to offer more attractive terms of employment. In addition, our operations in India require ongoing capital investments and expose us to foreign currency fluctuations, which may significantly reduce or negate any cost benefit anticipated from such expansion.

In addition, our reliance on a workforce in India exposes us to disruptions in the business, political and economic environment in that region. Maintenance of a stable political environment is important to our operations, and terrorist attacks and acts of violence or war may directly affect our physical facilities and workforce or contribute to general instability. Our operations in India may also be affected by trade restrictions, such as tariffs or other trade controls, as well as other factors that may adversely affect our operations.

Our business strategy includes expansion into markets outside North America, which will require increased expenditures and if our international operations are not successfully implemented, such expansion may cause our operating results and reputation to suffer.

We are working to expand operations in markets outside North America. There is no assurance that these efforts will be successful. We have limited experience in marketing, selling, implementing and supporting our software abroad. Expansion of our international sales and operations may require a significant amount of attention from our management, establishment of service delivery and support capabilities to handle that business and commensurate financial resources, and may subject us to risks and challenges that we would not face if we conducted our business only in the United States. We may not generate sufficient revenues from international business to cover these expenses.

The risks and challenges associated with operations outside the United States may include: the need to modify our software to satisfy local requirements and standards, including associated expenses and time delays; laws and business practices favoring local competitors; compliance with multiple, conflicting and changing

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governmental laws and regulations, including healthcare, employment, tax, privacy, healthcare information technology, and data and intellectual property protection laws and regulations; laws regulating exports of technology products from the United States; fluctuations in foreign currency exchange rates; difficulties in setting up foreign operations, including recruiting staff and management; and longer accounts receivable payment cycles and other collection difficulties. One or more of these requirements and risks may preclude us from operating in some markets.

Foreign operations subject us to numerous stringent U.S. and foreign laws, including the Foreign Corrupt Practices Act, or FCPA, and comparable foreign laws and regulations that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. and other business entities for the purpose of obtaining or retaining business. As we expand our international operations, there is some risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents or distributors, which could constitute a violation by Allscripts of various laws including the FCPA, even though such parties are not always subject to our control. Safeguards we implement to discourage these practices may prove to be less than effective and violations of the FCPA and other laws may result in severe criminal or civil sanctions, or other liabilities or proceedings against us, including class action law suits and enforcement actions from the SEC, Department of Justice and overseas regulators.

Foreign operations present certain additional risks, including:

- the general economic and political conditions existing in those countries;
- difficulties in staffing and managing our foreign offices, and the increased travel, infrastructure and legal and compliance costs associated with multiple international locations;
- product standards or regulations that differ from country to country and from those imposed upon the country by the United States government;
- devaluations and fluctuations in currency exchange rates;
- imposition of limitations on conversion of foreign currencies or remittance of dividends and other payments by foreign subsidiaries;
- imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries;
- imposition or increase of investment and other restrictions by foreign governments;
- longer payment cycles; and
- greater difficulties in accounts receivable collection.

Risks Related to Our Common Stock

Future sales of our common stock in the public market could adversely affect the trading price of our common stock that we may issue and our ability to raise funds in new securities offerings.

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. As of March 1, 2013, we had approximately:

173 million shares of common stock outstanding;

3 million shares of common stock reserved and available for issuance pursuant to outstanding stock options (at a weighted average exercise price of $12.06 per share); and

7 million shares of common stock reserved and available for issuance to settle outstanding restricted stock units and awards.

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In connection with our acquisition strategy, we may issue shares of our common stock as consideration in other acquisition transactions. We cannot predict the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale will have on the trading price of our common stock.

Any issuance of preferred stock could adversely affect holders of our common stock and discourage a takeover.

Our Board of Directors is authorized to issue up to 1 million shares of preferred stock without any action on the part of our stockholders. Our Board of Directors also has the power, without stockholder approval, to set the terms of any series of preferred stock that may be issued, including voting rights (except that shares of preferred stock may not have more than one vote per share), dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock that is convertible into our common stock at greater than a one-to-one ratio, the voting and other rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition, the ability of our Board of Directors to issue shares of preferred stock without any action on the part of our stockholders may impede a takeover of us and prevent a transaction favorable to the holders of our common stock.

Provisions of our charter documents, Delaware law and our stockholder rights plan may delay or inhibit potential acquisition bids that stockholders may believe are desirable, and the market price of our common stock may be lower as a result.

Our charter documents include an election to be governed by Section 203 of the Delaware General Corporation Law, which we refer to as the DGCL, which prohibits us from engaging in any business combination with an interested stockholder for a period of three years from the date the person became an interested stockholder, unless certain conditions are met. These provisions will make it more difficult for stockholders or potential acquirers to acquire us without negotiation and may apply even if some of our stockholders consider the proposed transaction beneficial to them. These provisions could also limit the price that investors are willing to pay in the future for shares of our common stock.

Our charter documents also contain provisions that may delay or inhibit potential acquisition bids, including provisions that:

- our stockholders are not allowed to act by written consent; and
- our stockholders are not allowed to call a special meeting of stockholders.

In addition, we recently adopted a stockholder rights plan. The rights issued under the stockholder rights plan may cause substantial dilution to a person or group that attempts to acquire the Company on terms or in a manner not approved by our board of directors, except pursuant to an offer conditioned upon the negation, purchase or redemption of the rights. Accordingly, the rights plan may have the effect of rendering more difficult or discouraging an acquisition of the Company deemed undesirable by our board of directors. Our Board of Directors expects the stockholder rights plan approved on May 7, 2012, to expire under its original terms on May 6, 2013, without being renewed.

Our goodwill could become impaired and adversely affect our net worth and the market value of our common stock.

Goodwill and other acquired intangibles expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated by management at least annually for impairment. If the carrying value of goodwill exceeds its estimated fair value, impairment is deemed to have occurred and the carrying value of goodwill is written down to fair value. Under generally accepted accounting principles (GAAP) in the United States of

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America, this would result in a charge to our operating earnings. Accordingly, any determination requiring the write-off of a significant portion of goodwill could have a material impact on our operating results. A further decline in the market value of our common stock resulting in a significant reduction in the market capitalization of the Company could be considered an indicator of potential impairment of our goodwill, causing us to perform an evaluation of the carrying amount of our goodwill which could result in a charge against our earnings.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have an adverse effect on our business and the trading price of our common stock.

Section 404 of the Sarbanes-Oxley Act requires us to evaluate annually the effectiveness of our internal controls over financial reporting as of the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in our annual report. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented, or amended from time to time, we can make no assurance that we will be able to conclude in the future that we have effective internal controls over financial reporting in accordance with Section 404. Additionally, if our independent registered public accounting firm is not satisfied with our internal controls over financial reporting or the level at which these controls are documented, designed and operated, or if our independent registered public accounting firm interprets the requirements, rules or regulations differently than we do, then it may issue an adverse opinion. If we fail to maintain a system of effective internal controls, it could have an adverse effect on our business and stock price and we could be subject to sanctions or investigations by NASDAQ, the SEC or other regulatory authorities, which would require additional financial and management resources.

The market price of our common stock has been and may continue to be volatile.

The market price of our common stock is volatile and could fluctuate significantly in response to the factors described above and other factors, many of which are beyond our control, including:

- actual or anticipated variations in our quarterly operating results;
- announcements of technological innovations or new services or products by our competitors or us;
- changes in financial estimates by securities analysts;
- conditions and trends in the electronic healthcare information, Internet, e-commerce and pharmaceutical markets; and
- general market conditions and other factors.

In addition, the stock markets, especially The NASDAQ Global Select Market, have experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many technology companies and Internet-related companies in particular. These fluctuations have often been unrelated or disproportionate to operating performance. These broad market factors may materially affect the trading price of our common stock. General economic, political and market conditions such as recessions and interest rate fluctuations may also have an adverse effect on the market price of our common stock. Volatility in the market price for our common stock may result in the filing of securities class action litigation.

Our quarterly operating results may vary.

Our quarterly operating results have varied in the past, and we expect that our quarterly operating results will continue to vary in future periods depending on a number of factors, some of which we have no control over, including customers budgetary constraints and internal acceptance procedures, seasonal variances in demand for our products and services, the sales, service and implementation cycles for our software products, potential downturns in the healthcare market and in economic conditions generally, and other factors described in this Risk Factors section.

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We base our expense levels in part on our expectations concerning future revenue, and these expense levels are relatively fixed in the short term. If we have lower revenue than expected, we may not be able to reduce our spending in the short term in response. Any shortfall in revenue would have a direct impact on our results of operations. In addition, our product sales cycle for larger sales is lengthy and unpredictable, making it difficult to estimate our future bookings for any given period. If we do not achieve projected booking targets for a given period, securities analysts may change their recommendations on our common stock. For these and other reasons, we may not meet the earnings estimates of securities analysts or investors, and our stock price could suffer.

Our indebtedness will decrease business flexibility and increase borrowing costs.

The covenants under the Credit Agreement and our increased indebtedness and higher debt-to-equity ratio in comparison to our debt-to-equity ratio on a recent historical basis could have the effect, among other things, of:

- requiring us to apply a substantial portion of our cash flow from operations to payments on our debt, reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate purposes;
- increasing our vulnerability to adverse general economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in business and the industry in which we operate;
- placing us at a competitive disadvantage compared to competitors that have less debt;
- limiting our ability to borrow additional funds on terms that are satisfactory or at all; and
- increasing our interest rates.

If we fail to comply with financial covenants under our credit facilities, our results of operation and financial condition could be adversely affected.

Our credit facilities contain certain financial covenants, including interest coverage and total leverage ratios. If we fail to comply with these covenants, an event of default may occur, resulting in, among other things, the requirement to immediately repay all outstanding amounts owed thereunder. Depending on borrowing levels in such an event, our liquid assets might not be sufficient to repay in full the debt outstanding under the credit facilities. Such an acceleration also would expose us to the risk of liquidation of collateral assets at unfavorable prices.

Coniston Exchange LLC (successor to Coniston, Inc.) may be liable for significant potential contingent tax liabilities arising out of the Misys Transactions and certain related transactions, or out of prior activities of Coniston Exchange LLC unrelated to those transactions.

Coniston Exchange LLC (successor to Coniston, Inc.), a Delaware limited liability company acquired by us in exchange for approximately 61 million shares of our common stock issued to subsidiaries of Misys (which transaction we refer to as the Exchange), might be subject to significant taxes, which we refer to as Transaction Taxes, arising out of the Exchange, certain share repurchases by us from subsidiaries of Misys and certain related restructuring transactions, which we refer to collectively as the Misys Transactions. In particular, the Exchange or other Misys Transactions might have resulted in the recognition of the built-in gain inherent in our shares of common stock held by Coniston Exchange LLC, which is significant. At the time of the Exchange, Coniston Exchange LLC held approximately 61 million shares of our common stock. Pursuant to the Framework Agreement, Misys agreed to indemnify us against any Transaction Taxes imposed on Coniston Exchange LLC. On November 3, 2010, Coniston Exchange LLC received a letter ruling from the Internal Revenue Service, which we refer to as the IRS, in response to a request submitted to the IRS by Misys on August 9, 2010. The letter ruling confirms, in effect, that the Misys Transactions will not result in the recognition of the built-in gain

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inherent in our shares of common stock held by Coniston Exchange LLC, and addresses certain other tax issues related to the Misys Transactions.

The ability to rely on any letter ruling depends on the accuracy and completeness of the information submitted to the IRS, which was primarily determined by Misys as the party that requested the letter ruling from the IRS. If any factual statements or representations submitted to the IRS were incorrect or untrue in any material respect, the letter ruling could be invalidated. As a result, no assurances can be given that our ability to rely on the letter ruling could not be challenged, in which case we would be required to rely on Misys indemnification obligation and ability to satisfy such indemnification obligation.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our properties consist of approximately 1 million square feet of leased facilities. Our facilities house various sales, services, support, development, data processing, technology functions, certain ancillary functions and other back-office functions for current operations of all segments. We believe that adequate, suitable lease space will continue to be available for our needs. Our corporate headquarters are located in Chicago, Illinois. In addition, we maintain leased facilities in Raleigh and Morrisville, North Carolina; Atlanta, Georgia; Burlington, Vermont; Glen Allen, Virginia; Louisville, Kentucky; Burlington, Massachusetts; Malverne and Pittsburgh, Pennsylvania; St. Louis, Missouri; Richmond, British Columbia, Canada; Vadodara (formerly known as Baroda), Pune and Bangalore, India; and certain other smaller facilities.

Item 3. Legal Proceedings

We hereby incorporate by reference Note 19, Contingencies, of the Notes to Consolidated Financial Statements in Part II, Item 8 of this report.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Public Market for Common Stock

Our common stock is quoted on the NASDAQ Global Select Market under the symbol MDRX. The following table sets forth, for the periods indicated, the high and low sales prices per share of the common stock of Allscripts Healthcare Solutions, Inc. for the applicable periods as reported on the NASDAQ Global Select Market.

	High	Low
Fiscal Year 2012 Quarter Ended		
December 31, 2012	$14.23	$8.85
September 30, 2012	$13.17	$8.84
June 30, 2012	$16.90	$8.99
March 31, 2012	$21.66	$16.55
Fiscal Year 2011 Quarter Ended		
December 31, 2011	$21.10	$16.13
September 30, 2011	$20.51	$13.85
June 30, 2011	$23.13	$18.27
March 31, 2011	$22.21	$19.20

We had 172 million and 190 million common shares outstanding at December 31, 2012 and 2011, respectively. On March 1, 2013, we had approximately 521 common stock holders of record according to the records of our transfer agent. We currently do not intend to declare or pay cash dividends on our shares of common stock in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will depend upon our results of operations, financial condition, current and anticipated cash needs, contractual restrictions, restrictions imposed by applicable law and other factors that our Board of Directors deems relevant. Our Senior Secured Credit Facility covenants include a restriction on our ability to declare dividends and other payments in respect of our capital stock.

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.

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The following table summarizes the stock repurchase activity for the three months ended December 31, 2012 (which consisted of the withholding of shares upon the vesting of restricted stock awards to pay withholding taxes) and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Approximate Dollar Value Of Shares That May Yet Be Purchased Under The Plans Or Programs
		(In thousands, except per share amounts)		
10/01/12 10/31/12	0	$0.00	0	$123,044
11/01/12 11/30/12	75	$12.27	0	$123,044
12/01/12 12/31/12	13	$11.18	0	$123,044
	88	$12.11	0	

See Stock Repurchases under Liquidity and Capital Resources within Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, within this Annual Report for additional information regarding the share repurchase program.

For equity compensation plan information, please refer to Item 12 in Part III of this Annual Report.

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Performance Graph

The following graph compares the cumulative 5-Year total return to shareholders on Allscripts Healthcare Solutions, Inc. s common stock relative to the cumulative total returns of the NASDAQ Composite index and the NASDAQ Health Services index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in the company s common stock and in each of the indexes on 12/31/2007 and its relative performance is tracked through 12/31/2012.

	12/07	6/08	12/08	6/09	12/09	6/10	12/10	6/11	12/11	6/12	12/12
Allscripts Healthcare Solutions, Inc.	100.00	63.90	100.19	160.18	204.32	162.61	194.62	196.14	191.29	110.39	95.14
NASDAQ Composite	100.00	84.78	59.03	66.79	82.25	76.71	97.32	102.20	98.63	109.52	110.78
NASDAQ Health Services	100.00	80.18	75.94	67.47	86.81	77.33	88.01	92.89	72.95	84.93	83.15

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

The information in this Performance Graph section shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Securities Exchange Act of 1934.

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Item 6. Selected Financial Data

The selected consolidated financial data shown below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this report. The consolidated statements of operations data for the years ended December 31, 2012 and 2011, the seven months ended December 31, 2010 and the year ended May 31, 2010, and the consolidated balance sheet data at December 31, 2012 and 2011, are derived from audited consolidated financial statements included elsewhere in this report. The consolidated statements of operations data for the years ended May 31, 2009 and 2008 and the balance sheet data at December 31, 2010 and May 31, 2010, 2009 and 2008 are derived from audited consolidated financial statements that are not included in this report. The historical results are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,		
(In thousands, except per share amounts)	2012	2011	2010[1]	2010	2009[1]	2008[1],[2]
Consolidated Statements of Operations Data:						
Revenue	$1,446,325	$1,444,077	$613,309	$704,502	$548,439	$383,771
Cost of revenue	839,790	778,512	315,140	315,658	256,288	176,870
Gross profit	606,535	665,565	298,169	388,844	292,151	206,901
Selling, general and administrative expenses	384,370	387,571	232,788	224,995	199,902	117,566
Research and development	162,158	104,106	43,261	49,206	39,431	37,784
Asset impairment charges	11,101	0	0	0	0	0
Amortization of intangible assets	35,635	37,344	16,235	10,060	6,884	11,320
Income from operations	13,271	136,544	5,885	104,583	45,934	40,231
Interest expense	(16,187)	(20,750)	(9,687)	(1,993)	(2,162)	(296)
Interest income and other (expense), net	(14,544)	1,685	843	946	626	219
Income (loss) before income taxes	(17,460)	117,479	(2,959)	103,536	44,398	40,154
Benefit (provision) for income taxes	16,307	(43,870)	(2,606)	(40,666)	(18,376)	(14,755)
Net income (loss)	($1,153)	$73,609	($5,565)	$62,870	$26,022	$25,399
Earnings (loss) per share basic and diluted	($0.01)	$0.39	($0.03)	$0.42	$0.21	$0.31

	As of December 31,			As of May 31,		
(In thousands)	2012	2011	2010	2010	2009	2008
Consolidated Balance Sheet Data:						
Cash and cash equivalents and marketable securities	$105,662	$159,428	$131,136	$145,335	$73,426	$325
Working capital	54,446	160,741	144,385	196,061	96,849	(6,776)
Goodwill and intangible assets, net	1,466,350	1,529,212	1,591,673	620,032	646,197	91,043
Total assets	2,384,464	2,517,341	2,418,587	1,094,690	952,656	179,268
Long-term debt	362,697	322,664	459,750	0	63,699	0
Total stockholders equity	1,284,341	1,476,720	1,383,768	806,825	700,370	110,649

(1) Results of operations for the seven months ended December 31, 2010 include the results of operations of Eclipsys for the period subsequent to the date of the merger, August 24, 2010. Results of operations for the year ended May 31, 2009 include the results of operations of Misys Healthcare Systems (MHS or legacy MHS) for the full year ended May 31, 2009 and the results of operations of legacy Allscripts are included from the completion of the transactions (the 2008 Transactions) contemplated by the Agreement and Plan of

Merger dated as of March 17, 2008 by and among Misys plc (Misys), Allscripts Healthcare Solutions, Inc. (legacy Allscripts), MHS and Patriot Merger Company, LLC (Patriot) on October 10, 2008 through May 31, 2009. Since the 2008 Transactions constitute a reverse acquisition for accounting purposes, the pre-acquisition combined financial statements of MHS are treated as the historical financial statements of Allscripts. Results of operations for the year ended May 31, 2008 are the results of operations of legacy MHS only.

(2) For the year ended May 31, 2008, the basic and diluted share count includes only the shares issued to Misys in connection with the 2008 Transactions. MHS did not have any shares outstanding prior to the merger, and therefore, the basic and diluted share count is comprised of the Allscripts shares issued on the October 10, 2008 acquisition date for all periods prior to the acquisition date as this reflects the Allscripts shares equivalent of MHS equity prior to the acquisition.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read together with Selected Financial Data , our consolidated financial statements, the accompanying notes to these financial statements, and the other financial information that appears elsewhere in this Annual Report on Form 10-K/A. The consolidated statements of operations data and the consolidated statements of cash flows data for the year ended December 31, 2010 and the seven months ended December 31, 2009 are derived from unaudited comparative financial results. Information for segment operations for the year ended December 31, 2010 is not presented herein as it is impractical for us to derive the information according to the realignment of our reportable segments. Information for segment operations for the year ended May 31, 2009 is presented herein as unaudited information.

Overview

Eclipsys Merger

On August 24, 2010, Allscripts-Misys Healthcare Solutions, Inc. (which changed its name to Allscripts Healthcare Solutions, Inc., Allscripts or the Company) completed the merger (the Eclipsys Merger) contemplated by an Agreement and Plan of Merger dated June 9, 2010 (Merger Agreement) by and among Allscripts, Arsenal Merger Corp., a wholly-owned subsidiary of Allscripts, and Eclipsys Corporation, an enterprise provider of solutions and services to hospitals and clinicians (Eclipsys). Eclipsys became a wholly-owned subsidiary of Allscripts as a result of the merger. The results of Eclipsys are consolidated with the results of Allscripts from August 24, 2010.

Misys Merger

On October 10, 2008, in accordance with the 2008 Transactions, a reverse acquisition for accounting purposes was completed. As a result of the completion of the 2008 Transactions, MHS became a wholly-owned subsidiary of legacy Allscripts and the newly combined entity was renamed Allscripts-Misys Healthcare Solutions, Inc. The 2008 Transactions were accounted for under the purchase method of accounting for business combinations in accordance with accounting principles generally accepted in the United States. Under the purchase method of accounting, with MHS as the accounting acquirer, the assets and liabilities of legacy Allscripts were recorded, as of October 10, 2008, at their fair values and added to those of MHS, which are carried at their book values.

Basis of Presentation

The merger with Eclipsys has been accounted for as a purchase business combination. Under the acquisition method of accounting, the purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The operating results of Eclipsys are included in the accompanying consolidated statements of operations for periods subsequent to the completion of the merger, August 24, 2010.

The 2008 Transactions constitute a reverse acquisition for accounting purposes. As such, the pre-acquisition combined financial statements of MHS are treated as the historical financial statements of Allscripts. The results of operations of legacy Allscripts are included in the accompanying consolidated statements of operations for periods subsequent to the date of the completion of the 2008 Transactions, October 10, 2008.

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.

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 to deliver world-class

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outcomes. We deliver innovative solutions that provide physicians and other 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. On March 16, 2009, we disposed of our prepackaged medications business which was previously reported as a separate operating segment.

We believe a combination of executive and legislative leadership at the federal level, industry standards, and federal incentives that exist today for Meaningful Use, e-prescribing and pay-for-quality initiatives is quickly making electronic health records as common as practice management systems in all provider offices. We believe that HITECH and other provisions provided by ARRA will continue to be a significant driver of healthcare IT adoption. We believe that we are well positioned in the market to take advantage of the material opportunity presented by HITECH.

Management has taken steps to position the Company to have what we believe will be adequate capacity to meet the demand that could result from new orders related to HITECH. These steps include supplementing our internal direct sales force with strategic distribution partners with established sales forces focused on practices with one to five providers. Further, we have taken steps to improve the efficiency of our approach to new system installations. The Company utilizes its Speed-to-Value implementation program, which standardizes certain key processes across customer sites and decreases the number of hours required by our professional services team to enable installations of our clinical and practice management solutions. This strategy is predicated on repeatable, best practice workflows and was designed collaboratively by our services and development teams and is proprietary to the Company. The Speed-to-Value program has significantly reduced installation timeframes for our client base.

For our customers to qualify for HITECH funding, our products must meet various requirements for product certification under the HITECH regulations, and must enable our customers to achieve Meaningful Use, as such term is currently defined under the 2010 and 2012 CMS Final Rules and under any future HITECH regulations and guidance that CMS may release. The CMS Final Rule provides for a phased approach to implementation of the Meaningful Use standards, with Stage 1 underway, Stage 2 set forth in the 2012 Final Rule and Stage 3 reserved for future rulemaking based on the experiences to date. Given that CMS will release future regulations related to electronic health records, our industry is presented with a challenge in preparing for compliance. Similarly, our ability to achieve product certification by CCHIT, the Drummond Group and/or other bodies to be accredited in the future, and the length, if any, of additional related development and other efforts required to meet Meaningful Use standards could materially impact our ability to maximize the market opportunity. All of our market-facing EHR solutions were certified 2011/2012 compliant by an ONC-ATCB, in accordance with the applicable provider or hospital certification criteria adopted by the Secretary of Health and Human Services. The new 2014 Edition criteria required to qualify eligible providers and hospitals for funding under HITECH beginning in 2014 are now available, and given the maturity of our products, management does not believe the incremental development effort required for our acute care and ambulatory EHRs to continue to meet the evolving Meaningful Use standards will present any insurmountable challenges. Management has made product development a strategic focus, with gross research and development funding expected to continue to approximate 10% of revenues in the foreseeable future.

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The market for acute care solutions is highly competitive. Sales cycles can occur over an extended period of time and require hospitals to secure external funding to finance their purchases of new clinical information systems. Several companies that we compete with are privately held which can provide certain advantages in capturing new client relationships. In addition, the market has increasingly moved toward adoption of integrated solutions that connect various venues of care including hospitals, physician offices, clinics, laboratories, post-acute facilities and other care delivery settings. The merger of Allscripts and Eclipsys responded to these emerging market dynamics by providing a full complement of solutions across the community of care. However other vendors may be better known or be perceived as a more integrated solutions provider currently. We have made progress on our integration plans, demonstrating the future direction for integrated solutions as well as current efforts that illustrate interoperability in common client settings. However, it will take more time and resources to finalize the product integration to meet current and evolving market demand for such solutions.

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. 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 in those small and medium-sized practices who have not yet participated seek to qualify for the HITECH incentives for the first time or experienced practices 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. The community programs we have in place will aid us in penetrating this market.

The vast majority of our acute care and ambulatory customers continue to focus on achieving Meaningful Use under HITECH. As a result, during 2012, much of our professional services deployment capacity was consumed by demand from our customers who wished 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

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assurance that it will 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. As a result, we expect it is likely that the market will demonstrate a need for new revenue cycle management offerings, such as our Sunrise Financial Manager solution, as organizations consider the larger shifts in reimbursement models being rolled out across the payment spectrum, as well as the ICD-10 transition.

Cost of revenue consists primarily of salaries, bonuses and benefits of Allscripts billable professionals, third-party software costs, hardware costs, third-party transaction processing costs, amortization of acquired proprietary technology and software development costs, depreciation and other direct engagement costs.

Selling, general and administrative expenses consist primarily of salaries, bonuses and benefits for management and administrative personnel, commissions, facilities costs, depreciation and amortization, general operating expenses, and selling and marketing expenses. In addition, selling, general and administrative expenses include certain services performed by Misys under the Shared Services Agreement and Transition Services Agreement. Refer to Note 17 in the Notes to our Consolidated Financial Statements for information regarding expenses incurred under the two agreements.

Research and development expenses consist primarily of salaries, bonuses and benefits, third party contractor costs and other costs directly related to development of new products and upgrading and enhancing existing products.

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Asset impairment charges consist of previously capitalized software development costs for our MyWay application plus the net carrying value of a perpetual license for certain software code incorporated in MyWay.

Amortization of intangibles consists of amortization of customer relationships, trade names and other intangibles acquired under purchase accounting related business combinations.

Interest expense consists primarily of interest on our previously outstanding 3.50% Senior Convertible Debentures (the Debentures), interest on capital leases and interest expense on outstanding debt under credit facilities.

Interest income and other, net consists primarily of interest earned on cash and marketable securities, and realized gains on investments.

Summary of Results

Bookings, which reflect the value of executed contracts for our solutions, totaled $731 million for the year ended December 31, 2012 which is lower compared with the prior year amount of $1.1 billion. Bookings for the fourth quarter totaled $180 million which is higher compared with our third quarter bookings of $162 million and lower compared with the prior year fourth-quarter bookings of $327 million. Our current year results were impacted by speculation in the second half of 2012 about Allscripts future corporate autonomy and also by clients and prospective clients who continued to evaluate purchase decisions as they wait for new product releases.

Total revenue was essentially unchanged at $1.4 billion compared with the prior year. We realized increases across all revenue categories with the exception of system sales as we experienced a decline in orders for which we continue our efforts to improve product performance and delivery execution.

We generated operating cash flows of approximately $223 million in the current year which compares with $269 million in the prior year.

Gross research and development spending in 2012 totaled $205 million which represents a significant increase compared with the prior year spending of $165 million. During 2012 we also released several important upgrades, product enhancements and innovative solutions.

To serve our clients and the healthcare market better, 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 and Professional Suite applications (the MyWay Transition).

We plan to upgrade MyWay clients electing to migrate to the converged platform between February 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.

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Also impacting the financial statements for 2012 is the settlement of an acquired tax position that was included in our liability for uncertain tax benefits prior to the current year**.** 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 year, 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 were evaluating strategic alternatives. On December 19, 2012, we announced that our Board of Directors concluded the evaluation process and determined that the best course is to develop Allscripts long-term potential. We also announced changes in our senior leadership. As stated above, our current year bookings were impacted by speculation about Allscripts future corporate autonomy and the timing of new product releases. Our ability to successfully execute on product innovation and integration initiatives may impact future bookings and results of operations.

During the three months ended December 31, 2012, we recorded a provision totaling $17 million that represents a non-recurring revenue deferral related to clients who have long-aged accounts receivable balances. The provision is reflected as a reduction to maintenance revenues within our consolidated statement of operations for the year ended December 31, 2012.

Recent Accounting Pronouncements

Refer to Note 1 in the Notes to our Consolidated Financial Statements for a description of new accounting pronouncements.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

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

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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 (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 on contractual renewal rates. For income statement presentation, consideration from agreements accounted for under percentage of completion accounting is allocated between system sales and professional 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 on 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 on 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 use 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.

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

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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 result in a requirement to either separate or combine deliverables, such that a delivered item could now meet the separation criteria and qualify as a separate unit of accounting which may lead to an upward or downward adjustment to the amount of revenue recognized under the arrangement on a prospective basis.

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 on 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 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 on 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.

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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.

Allowance for Doubtful Accounts Receivable

We rely on estimates to determine our bad debt expense and the adequacy of our allowance for doubtful accounts. These estimates are based on our historical experience and the industry in which we operate. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances and related bad debt expense may be required.

Business Combinations

Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired, including intangible assets, and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

Goodwill and Intangible Assets

We evaluate the value of intangible assets based upon the present value of the future economic benefits expected to be derived from the assets. We assess the impairment of the identifiable intangibles and goodwill annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If we determine that the value of the intangible assets and goodwill may not be recoverable from future cash flows, a write-down of the value of the asset may be required.

We estimate the useful lives of our intangible assets and amortize the value over that estimated life. If the actual useful life is shorter than our estimated useful life, we will amortize the remaining book value over the remaining useful life or the asset may be deemed to be impaired and, accordingly, a write-down of the value of the asset may be required.

During the three months ended June 30, 2011, we voluntarily changed the date of our annual impairment test for goodwill and indefinite lived intangible assets from May 31 to the first day of the fiscal fourth quarter. This change was preferable under the circumstances as it aligns the timing of the annual goodwill impairment test with our strategic planning and budgeting process, which will enable management to use the updated strategic business plans that result from the budget process in the discounted cash flow analyses that it uses to estimate the fair value of our reporting units. The change did not delay, accelerate or avoid an impairment charge.

For each reporting unit fair value substantially exceeded its carrying value and no indicators of impairment were identified as a result of the annual impairment test performed as of October 1, 2012. Due to a decline in our stock price during the final three months of 2012, which we considered to be an indicator of potential impairment, we re-performed step one of the goodwill impairment test as of December 31, 2012. Based on re-performance of step one, no impairment was identified. A further decline in the market value of our common stock resulting in a significant reduction in the market capitalization of the Company would again cause us to perform an evaluation of the carrying amount of our goodwill which could result in a charge against our earnings.

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Software Capitalization

We capitalize purchased software that is ready for service and software development costs incurred from the time technological feasibility of the software is established until the software is available for general release in accordance with accounting guidance. Research and development costs and other computer software maintenance costs related to software development are expensed as incurred.

The carrying value of capitalized software is dependent on the ability to recover its value through future revenue from the sale of the software. If we determine in the future that the value of the capitalized software could not be recovered, a write-down of the value of the capitalized software to its recoverable value may be required.

We estimate the useful life of our capitalized software and amortize the value over that estimated life. If the actual useful life is shorter than our estimated useful life, we will amortize the remaining book value over the remaining useful life or the asset may be deemed to be impaired and, accordingly, a write-down of the value of the asset may be required.

Income Taxes

We account for income taxes using the liability method, which requires the recognition of deferred tax assets or liabilities for the tax-effected temporary differences between the financial reporting and tax bases of our assets and liabilities and for net operating loss and tax credit carryforwards. The tax expense or benefit for unusual items, or certain adjustments to the valuation allowance, are treated as discrete items in the interim period in which the events occur. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns.

In addition, 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. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. In accordance with authoritative accounting guidance, we recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes may be required. If we ultimately determine that payment of these amounts is unnecessary, then we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We also recognize tax benefits to the extent that it is more likely than not that our positions will be sustained if challenged by the taxing authorities. To the extent we prevail in matters for which liabilities have been established, or are required to pay amounts in excess of our liabilities, our effective tax rate in a given period may be materially affected. An unfavorable tax settlement would require cash payments and may result in an increase in our effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the year of resolution. We report interest and penalties related to uncertain income tax positions in the provision for income taxes line of our consolidated statements of operations.

Refer to Note 1 Basis of Presentation and Significant Accounting Policies in the Notes to our Consolidated Financial Statements for further discussions of our accounting policies.

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Overview of Consolidated Results

	Year Ended December 31,					Seven Months Ended December 31,			Year Ended May 31,		
(Dollar amounts in thousands)	2012	2011	2010 (Unaudited)	2012 % Change from 2011	2011 % Change from 2010	2010	2009 (Unaudited)	% Change	2010	2009	% Change
Revenue:											
System sales	$145,274	$227,906	$179,967	(36.3%)	26.6%	$103,873	$69,027	50.5%	$145,120	$93,337	55.5%
Professional services	270,541	250,348	130,980	8.1%	91.1%	93,875	38,335	144.9%	75,439	51,827	45.6%
Maintenance	460,138	438,999	313,285	4.8%	40.1%	200,746	145,440	38.0%	257,978	201,297	28.2%
Transaction processing and other	570,372	526,824	310,104	8.3%	69.9%	214,815	130,677	64.4%	225,965	187,557	20.5%
Prepackaged medications	0	0	0	NM	NM	0	0	NM	0	14,421	NM
Total revenue	1,446,325	1,444,077	934,336	0.2%	54.6%	613,309	383,479	59.9%	704,502	548,439	28.5%
Cost of revenue:											
System sales	128,300	144,139	104,946	(11.0%)	37.3%	63,392	43,516	45.7%	85,070	52,039	63.5%
Professional services	234,869	210,614	113,500	11.5%	85.6%	81,572	35,414	130.3%	66,561	51,327	29.7%
Maintenance	145,352	135,570	102,501	7.2%	32.3%	67,463	47,588	41.8%	82,348	71,913	14.5%
Transaction processing and other	331,269	288,189	134,240	14.9%	114.7%	102,713	47,094	118.1%	81,679	69,479	17.6%
Prepackaged medications	0	0	0	NM	NM	0	0	NM	0	11,530	NM
Total cost of revenue	839,790	778,512	455,187	7.9%	71.0%	315,140	173,612	81.5%	315,658	256,288	23.2%
Gross profit	606,535	665,565	479,149	(8.9%)	38.9%	298,169	209,867	42.1%	388,844	292,151	33.1%
% of Revenue	41.9%	46.1%	51.3%			48.6%	54.7%		55.2%	53.3%	
Selling, general and administrative expenses	384,370	387,571	332,413	(0.8%)	16.6%	232,788	126,569	83.9%	224,995	199,902	12.6%
Research and development	162,158	104,106	65,419	55.8%	59.1%	43,261	27,238	58.8%	49,206	39,431	24.8%
Asset impairment charges	11,101	0	0	NM	NM	0	0	NM	0	0	NM
Amortization of intangible assets	35,635	37,344	20,381	(4.6%)	83.2%	16,235	5,914	174.5%	10,060	6,884	46.1%
Income from operations	13,271	136,544	60,936	(90.3%)	124.1%	5,885	50,146	(88.3%)	104,583	45,934	127.7%
Interest expense	(16,187)	(20,750)	(10,992)	(22.0%)	88.8%	(9,687)	(1,302)	644.0%	(1,993)	(2,162)	(7.8%)
Interest income and other (expense), net	(14,544)	1,685	1,549	NM	8.8%	843	240	251.3%	946	626	51.1%
Income (loss) before income taxes	(17,460)	117,479	51,493	(114.9%)	128.1%	(2,959)	49,084	(106.0%)	103,536	44,398	133.2%
Benefit (provision) for income taxes	16,307	(43,870)	(24,676)	(137.2%)	77.8%	(2,606)	(18,596)	(86.0%)	(40,666)	(18,376)	121.3%
Effective tax rate	93.4%	37.3%	47.9%			(88.1%)	37.9%		39.3%	41.4%	
Net income (loss)	($1,153)	$73,609	$26,817	(101.6%)	174.5%	($5,565)	$30,488	(118.3%)	$62,870	$26,022	141.6%

NM not meaningful

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Given the level of integration of the operations and reporting of legacy Allscripts and legacy MHS following the 2008 Transactions, management does not view or manage the business on a legacy business basis. Accordingly, it is not possible or meaningful in every case to quantify the impacts of the inclusion of legacy Allscripts on our financial results on a year-over-year basis within our overview of consolidated results and segment results. The fiscal year ended May 31, 2010 includes the full-year results of both legacy MHS and legacy Allscripts businesses. The fiscal year ended May 31, 2009 includes the full-year results of legacy MHS and the results of operations of legacy Allscripts subsequent to the closing of the 2008 Transactions, October 10, 2008.

Revenue

	Year Ended December 31,					Seven Months Ended December 31,			Year Ended May 31,		
(Dollar amounts in thousands)	2012	2011	2010 (Unaudited)	2012 % Change from 2011	2011 % Change from 2010	2010	2009 (Unaudited)	% Change	2010	2009	% Change
Revenue:											
System sales	$145,274	$227,906	$179,967	(36.3%)	26.6%	$103,873	$69,027	50.5%	$145,120	$93,337	55.5%
Professional services	270,541	250,348	130,980	8.1%	91.1%	93,875	38,335	144.9%	75,439	51,827	45.6%
Maintenance	460,138	438,999	313,285	4.8%	40.1%	200,746	145,440	38.0%	257,978	201,297	28.2%
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