ALLSCRIPTS HEALTHCARE SOLUTIONS INC
Form 424B5
February 15, 2006
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Filed Pursuant to Rule 424(b)(5)

Registration No. 333-129816

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated February 13, 2006

PROSPECTUS SUPPLEMENT

(To Prospectus dated February 13, 2006)

7,300,000 shares

Common Stock

Allscripts Healthcare Solutions, Inc. is offering 7,300,000 of its shares of common stock. Allscripts will receive all of the net proceeds from the sale of its common stock.

Our common stock is quoted on the Nasdaq National Market under the symbol MDRX. On February 9, 2006, the last sale price of our common stock as reported on the Nasdaq National Market was $17.11 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-16 of this prospectus supplement.

	Per Share	Total

Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

We have granted the underwriters a 30-day option to purchase up to an additional 1,095,000 shares from us on the same terms and conditions as set forth above if the underwriters sell more than 7,300,000 shares of common stock in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares to purchasers on or about , 2006.

Joint Book-Running Managers

LEHMAN BROTHERS **UBS INVESTMENT BANK**

Co-Managers

JEFFERIES BROADVIEW **WILLIAM BLAIR & COMPANY** **PIPER JAFFRAY** **GOLDMAN, SACHS & CO.**

, 2006

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This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of our common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement or the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to our common stock. This prospectus supplement may add to, update or change information in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement or the accompanying prospectus. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference as of the date of this prospectus supplement, on the other hand, the information in this prospectus supplement shall control. Unless otherwise expressly stated, all information in this prospectus supplement assumes that the underwriters option to purchase additional shares is not exercised.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor any underwriter or agent has authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. Neither we nor any underwriter or agent is making an offer to sell our common stock in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of the date of the applicable document, regardless of the time of delivery of this prospectus supplement or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

Statements contained in this prospectus supplement as to the contents of any contract or other document are not complete, and in each instance we refer you to the copy of the contract or document filed or incorporated by reference as an exhibit to the registration statement of which the accompanying prospectus constitutes a part or to a document incorporated or deemed to be incorporated by reference in the registration statement, each of those statements being qualified in all respects by this reference.

Our trademarks or service marks include Allscripts®, the Allscripts logo, Impact.MD, Patients Interactive, Physicians Interactive, TouchChart, TouchScript® and TouchWorks. A4 Health Systems, Inc. s trademarks or service marks include Canopy® and HealthMatics®. Other trademarks, service marks and trade names referred to in this prospectus supplement, the accompanying prospectus or the documents incorporated or deemed to be incorporated by reference herein or therein are the property of their respective owners.

Allscripts was incorporated in Delaware. The mailing address of our principal executive offices is 222 Merchandise Mart Plaza, Suite 2024, Chicago, IL 60654 and the telephone number of our principal executive offices is (800) 654-0889.

SPECIAL NOTE REGARDING

FORWARD-LOOKING STATEMENTS AND MARKET DATA

This prospectus supplement, the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus contain forward-looking statements that involve risks and uncertainties, including those discussed under the caption Risk Factors. 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 some of these statements can be identified by the use of forward-looking terminology such as believe, expect, anticipate, intend, contemplate, seek, plan, estimate, should and the negative or other variations of those terms or comparable terminology or by discussion of strategy, plans or intentions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. You should not rely upon these statements as facts.

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 we cannot predict all of the risks and uncertainties that may affect us, or control the ones we do predict, these risks and uncertainties can cause our results to differ materially from the results we express in our forward-looking statements. We undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, changes to future results over time or otherwise.

The information in this prospectus supplement, the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus concerning our industry, our market position and similar matters, is derived principally from publicly available information, industry publications, data compiled by market research firms and similar sources. Although we believe that this information is reliable, we have not independently verified any of this information and, accordingly, we cannot assure you that it is accurate. The information in this prospectus supplement and the documents incorporated or deemed to be incorporated by reference in this prospectus supplement concerning A4 is based on information provided to us by A4 s management. We have not independently verified this information, and, accordingly, we cannot assure you that it is accurate.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere in this prospectus supplement or the accompanying prospectus or the documents incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before deciding whether to invest in our shares of common stock. You should read this entire prospectus supplement and the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus, including the Risk Factors section included in this prospectus supplement and the financial statements and related notes incorporated by reference herein, carefully before making an investment decision. Unless this prospectus supplement indicates otherwise or the context otherwise requires (i) the terms we, our, us, Allscripts and the Company refer to Allscripts Healthcare Solutions, Inc. and its consolidated subsidiaries, (ii) the term A4 refers to A4 Health Systems, Inc. and its consolidated subsidiaries and (iii) references to the A4 Acquisition mean the consummation of our acquisition of A4, as described herein.

Allscripts Healthcare Solutions, Inc.

Company Overview

We are a leading provider of clinical software, connectivity and information solutions that physicians use to improve the quality of healthcare. Our business groups provide innovative solutions that inform physicians with just right, just in time information, connect physicians to each other and to the entire community of care, and transform healthcare, improving both the quality and efficiency of care. Our Clinical Solutions Group, the software and related services segment of our business, provides clinical software solutions, including electronic health record (EHR), electronic prescribing (e-prescribing) and document imaging solutions. Our Physicians Interactive Group, the information services segment of our business, provides clinical education and information solutions for physicians and patients, along with physician-patient connectivity solutions. Our Medication Solutions Group, the prepackaged medications segment of our business, provides prepackaged medication fulfillment solutions, which includes both medications and software for dispensing and inventory control.

Industry Overview

We believe that the healthcare information technology market for providers is large and growing. A 2005 Gartner report estimates that the market for healthcare provider information technology software and services (excluding hardware) was $7.3 billion in 2004, and is estimated to expand to $10.8 billion by 2009. We also provide services to two additional significant markets: clinical information solutions, and prepackaged medications and related solutions for physicians.

We believe that there are many factors positively impacting the rate of adoption and growth of clinical software solutions, including overall acceptance of electronic health records as a standard within clinical practice, recent federal and state government support of electronic health record initiatives and a potential return on investment from the adoption of these clinical software solutions.

Our Competitive Strengths

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

World-class technologies that enable industry-leading solutions. We have been an innovator in the development and adoption of clinical solutions. We believe our clinical solutions provide the following technological advantages:

Accessibility,

Connectivity,

Paperless Innovation,

Wireless Leadership,

Interoperability,

Modularity, and

Award-Winning Solutions.

Breadth of product and service offering. Our suite of clinical software solutions includes electronic health records, electronic prescribing, and personal health records, encompassing virtually all of the most common functions performed by a physician at the point of care.

Rapid return on investment. In addition to offering clinical benefits, our products and services are designed to provide a rapid return on investment by increasing revenues and reducing costs to physicians. We believe our EHR and practice management solutions reduce administrative efforts and expenses, improve third-party reimbursement, and enable physicians to undertake additional revenue generating activities.

Ease of adoption and use. Because our EHR solutions leverage a modular approach, our physician customers can start with one or a few modules before implementing the entire EHR. We have also designed our clinical software solutions to be easy to use by automating basic clinical workflows, enabling the application to learn the physician s preferences, providing the ability to operate on multiple hardware platforms, allowing physicians to document encounters in multiple ways and by integrating the EHR with other systems to provide the physician with a more complete view of the patient and improve efficiency.

Significant installed base. Over 170 physician practices, representing over 2,000 clinics nationwide and including some of the country s most prestigious medical groups, have selected our EHR solution, TouchWorks. Our customer base will be extended to include another approximately 1,700 healthcare organizations nationally with the A4 Acquisition, if consummated, including small and mid-sized physician practice groups.

Integrated solution and product offering with IDX. Under a strategic alliance agreement with IDX Systems Corporation (IDX) and GE, we are a preferred provider of ambulatory, point-of-care clinical EHR solutions to IDX s installed base of medium to large physician practices nationwide, representing over 138,000 potential physician customers. By integrating the Allscripts solutions with existing IDX systems, we believe we have a significant competitive advantage in selling to medium and large sized physician practice groups nationwide.

Experienced employee base with significant expertise. Our employees have significant experience in developing, marketing and implementing our award-winning clinical solutions, which positions us well with physicians.

Diversified business model. Our business model includes three complementary business segments focusing on the physician, which we believe provides for a more diverse revenue stream and enhances our financial stability.

Our Strategy

Our objective is to be the leading provider of clinical software, connectivity and information solutions for physicians to inform, connect and transform healthcare. Key elements of our strategy include:

- Expand and broaden physician base across all physician practice market segments;
- Increase physician utilization of our solutions;
- Continue to lead through product innovation;
- Expand and leverage our strong brand recognition; and
- Further broaden our technology and markets by continuing to pursue strategic opportunities.

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Recent Developments

The A4 Acquisition

On January 18, 2006, we entered into an agreement of merger pursuant to which we agreed to acquire all of the outstanding equity interests of A4 for approximately $274.9 million, of which approximately $215 million is payable in cash and approximately $59.9 million is payable through the issuance of 3,500,000 shares of our common stock (based on the last reported sale price of $17.11 per share of our common stock on the Nasdaq National Market on February 9, 2006). A4 develops and provides EHR and practice management solutions to small and mid-sized physician practice groups, emergency department information systems (EDIS) to hospital emergency departments, and care management solutions to hospitals. A4 s customer base includes approximately 1,500 physician practice groups and more than 195 hospitals. A4 reported revenues of $67.2 million and $55.9 million, and net income of $20.3 million and $8.1 million, for the year ended December 31, 2004 and the nine months ended September 30, 2005, respectively.

We believe that the strategic benefits of the A4 Acquisition include expanded product and service offerings, broadened customer base and additional operating scale. The A4 Acquisition will enable us to extend our product offerings by allowing us to independently offer an integrated solution that combines our EHR solution with A4 s practice management system. We intend to market this integrated solution to customers outside of the IDX customer base. The A4 Acquisition will also allow us to reach new markets: small and mid-sized physician practice groups seeking either a practice management system or a combined EHR and practice management solution, and hospitals seeking EDIS and care management solutions. We believe that these EDIS and care management solutions offer a natural connection to our ambulatory applications, facilitating the continuity of care between the acute and ambulatory healthcare settings.

The consummation of the A4 Acquisition is subject to the satisfaction or waiver of a number of conditions, including our obtaining financing for the acquisition. We intend to use the net proceeds from this offering to finance the acquisition; however, this offering is not conditioned upon the consummation of the acquisition. We cannot assure you that the acquisition will be consummated on the terms described herein or at all. See Risk Factors Risks Related to the Acquisition and The A4 Acquisition.

IDX Strategic Alliance

We have a strategic alliance agreement with IDX and GE that was entered into with IDX in 2001 and amended on January 18, 2006. Under this agreement, as amended, we are a preferred provider of ambulatory, point-of-care clinical EHR solutions to IDX s installed base of medium to large physician practices nationwide, representing over 138,000 potential physician customers. The amended agreement with IDX and GE, which runs through January 2011, supports the ongoing integration and compatibility of the Allscripts and IDX products. We also have the right to offer our own integrated practice management and EHR solution. See Certain Relationships and Related Transactions IDX Relationship for additional information.

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Earnings Announcement

On January 31, 2006, we announced the earnings results of our three months and year ended December 31, 2005. The following table sets forth those results of operations as compared to the three months and year ended December 31, 2004:

	Year ended December 31,		Three months ended December 31,	
	2004	**2005**	**2004**	**2005**
	(dollars in millions, except per share amounts)			
	(unaudited)			
Statement of Operations Data:				
Revenue:				
Software and related services	$44.1	$65.2	$14.3	$18.2
Prepackaged medications	44.7	45.6	9.3	12.8
Information services	11.9	9.8	2.7	3.2
Total revenue	100.7	120.6	26.3	34.2
Gross profit	42.6	54.9	12.3	15.6
Income from operations	3.1	9.2	1.6	3.1
Net income	$3.1	$9.7	$1.4	$3.4
Net income per share basic	$0.08	$0.24	$0.04	$0.08
Net income per share diluted	$0.07	$0.23	$0.03	$0.08
Adjusted net income per share diluted[(1)]	$0.07	$0.24	$0.03	$0.09
Balance Sheet Data (at end of period):				
Cash, cash equivalents and marketable securities	$128.2	$146.1	$128.2	$146.1
Other Financial and Operating Data:				
Backlog	$67.1	$91.2	$67.1	$91.2
Bookings for software and related services and information services segments	$65.9	$89.5	$29.5	$33.8

(1) On December 30, 2005, our board of directors approved a plan to accelerate the vesting of options to purchase approximately 1.3 million shares of our common stock awarded under our stock plans that were due to fully vest by August 1, 2007. The exercise prices of the affected stock options range from $2.77 to $10.67 per share. As a result of the acceleration, we recognized an additional non-cash, non-recurring stock-based compensation expense of approximately $0.5 million. Management believes that the presentation of adjusted net income per share diluted is useful to provide investors with a more direct comparison of changes in our results of operations over the periods shown without the effect of this non-operating, non-recurring charge. A reconciliation of adjusted net income per share diluted to net income per share diluted is as follows:

	Year ended December 31,	Three months ended December 31,

	2004	2005	2004	2005
	(dollars in millions, except per share amounts)			
	(unaudited)			
Net income	$3.1	$9.7	$1.4	$3.4
Add: Stock-based compensation charge for acceleration of options		0.5		0.5
Net income excluding stock-based compensation charge	$3.1	$10.2	$1.4	$3.9
Net income per share diluted	$0.07	$0.23	$0.03	$0.08
Add: Stock-based compensation charge for acceleration of options		0.01		0.01
Adjusted net income per share diluted	$0.07	$0.24	$0.03	$0.09

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The Offering

Issuer	Allscripts Healthcare Solutions, Inc.
Common stock offered	7,300,000 shares
Underwriters option to purchase additional shares	1,095,000 shares
Approximate number of shares of common stock to be outstanding after this offering	48,248,000 shares
Listing	Nasdaq National Market
Symbol	MDRX
Use of proceeds	We estimate that we will receive approximately $117.8 million of net proceeds from this offering, or approximately $135.6 million if the underwriters exercise their option to purchase additional shares in full, in each case assuming a public offering price of $17.11 per share (the last reported sale price of our common stock on the Nasdaq National Market on February 9, 2006). We intend to use all of the net proceeds from this offering to finance the A4 Acquisition as described under The A4 Acquisition. If the A4 Acquisition is not consummated, we will use all of the net proceeds from this offering for general corporate purposes, including working capital. We may consider acquisitions of other complementary businesses, technologies or other assets from time to time, and we may, therefore, apply all or a portion of the proceeds from this offering to finance the cost of those other acquisitions. See Use of Proceeds.
Risk factors	You should carefully review the information appearing in this prospectus supplement under the caption Risk Factors for a discussion of some of the risks affecting our business.

The number of shares of common stock to be outstanding immediately after this offering that appears above is based on the number of shares of common stock outstanding as of February 9, 2006 and excludes:

- 1,095,000 shares of common stock issuable on the exercise of the underwriters option to purchase additional shares as described below;
- 8,687,754 shares of common stock reserved and available for issuance pursuant to stock options and other awards outstanding under our 1993 stock incentive plan and our 2001 non-statutory stock option plan (which we refer to herein collectively as our stock plans) as of September 30, 2005 at a weighted average exercise price of $7.64 per share;
- 903,942 additional shares of common stock reserved and available for issuance under our stock plans as of September 30, 2005;

3,333 shares of common stock reserved for issuance upon exercise of outstanding warrants; and

7,329,424 shares of common stock reserved for issuance upon conversion of our outstanding 3.50% convertible senior debentures. The number of shares issuable upon conversion of these debentures is subject to adjustment from time to time pursuant to anti-dilution provisions.

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Subsequent to September 30, 2005, we granted options to purchase 7,500 additional shares of common stock and granted restricted stock awards with respect to 364,950 additional shares of our common stock under our stock plans. In addition, the number of shares of common stock to be outstanding immediately after this offering does not include 3,500,000 shares of common stock that we expect to issue upon consummation of the A4 Acquisition as described below under the caption The A4 Acquisition.

Forward-Looking Statements

In addition to historical information, this prospectus supplement and the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference herein or therein contain certain statements that constitute forward-looking statements within this meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. See Special Note Regarding Forward-Looking Statements and Market Data beginning on page S-ii of this prospectus supplement.

Risk Factors

An investment in our common stock involves certain risks that you should carefully evaluate before making an investment in our common stock. See Risk Factors beginning on page S-16 of this prospectus supplement.

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Summary Unaudited Pro Forma Condensed Combined Financial Information

The following summary unaudited pro forma condensed combined financial information was derived from the unaudited pro forma condensed combined financial statements of Allscripts and A4 incorporated by reference in this prospectus supplement. The pro forma other financial data and operating data was derived from historical operating statistics of each of Allscripts and A4. The unaudited pro forma condensed combined financial statements for the year ended December 31, 2004 are based on the audited financial statements of each of Allscripts and A4 incorporated by reference in this prospectus supplement. The unaudited pro forma condensed combined financial statements for the nine months ended September 30, 2005 are based on the unaudited financial statements of each of Allscripts and A4, incorporated by reference in this prospectus supplement. The unaudited pro forma condensed combined financial information gives effect to both this offering, the application of the estimated net proceeds therefrom, and the A4 Acquisition as if each had occurred on January 1, 2004 in the case of statement of operations data or September 30, 2005 in the case of balance sheet data and other financial and operating data. The summary unaudited pro forma condensed combined financial information gives effect to the sale of 7,300,000 shares of our common stock in this offering and our receipt of approximately $117.8 million of net proceeds, based on an assumed public offering price of $17.11 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 9, 2006) and after deducting underwriting discounts and commissions and estimated expenses of this offering payable by us, as described under Use of Proceeds. This offering is not conditioned upon the consummation of the A4 Acquisition. We can not assure you that the A4 Acquisition will be consummated on the terms described herein or at all.

The summary pro forma condensed combined financial information is provided for informational purposes only and is subject to a number of uncertainties and assumptions. This information does not purport to represent what the combined companies actual performance or financial position would have been had the transactions occurred on the dates indicated and does not purport to indicate the financial position or results of operations as of any future date or at any future period. Because the information below is a summary, you should read the following information in conjunction with the other information contained under the captions The A4 Acquisition, Use of Proceeds, Capitalization, Unaudited Pro Forma Condensed Combined Financial Statements, and our and A4 s historical financial statements and the accompanying notes thereto, and other financial and statistical data included elsewhere in or incorporated by reference in this prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations from our Annual Report on Form 10-K as of and for the year ended December 31, 2004 and from our Quarterly Report on Form 10-Q as of and for the three and nine months ended September 30, 2005, each incorporated by reference herein.

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	Nine months ended September 30, 2005			
	Historical Allscripts	Historical A4	Pro forma adjustments	Pro forma combined
	(in millions, except per share and percentage data) (unaudited)			
Statement of Operations Data:				
Revenues:				
Software and related services	$46.9	$55.9	$	$102.8
Prepackaged medications	32.8			32.8
Information services	6.6			6.6
Total revenues	86.3	55.9		142.2
Cost of revenue	47.1	23.4		70.5
Gross profit	39.2	32.5		71.7
Operating expenses:				
Selling, general and administrative expenses	31.8	20.6		52.4
Amortization of intangible assets	1.3	0.6	10.1	12.0
Income from operations	6.1	11.3	(10.1)	7.3
Income before income taxes	6.3	11.7	(12.3)	5.7
Income taxes		3.6	(1.5)	2.1
Net income	$6.3	$8.1	($10.8)	$3.6
Net income per share basic	$0.16			$0.07
Net income per share diluted	$0.15			$0.07
Weighted-average shares of common stock outstanding used in computing net income per share basic	39.9		10.8	50.7
Weighted-average shares of common stock outstanding used in computing net income per share diluted	43.0		10.8	53.8
Other Financial and Operating Data:				
EBITDA[1]	$10.9	$12.5	$	$23.4
Backlog	78.9	36.1		115.0
Bookings for software and information services segments	55.8	35.9		91.7
Percentage of revenues by segment:				
Software and related services	54.3%	100%		72.3%
Prepackaged medications	38.0%			23.1%
Information services	7.7%			4.6%
Balance Sheet Data (at end of period):				
Cash, cash equivalents and marketable securities	$136.0	$24.1	($107.6)	$52.5
Working capital	97.7	14.4	(38.9)	73.2
Intangible assets, net	9.6	5.0	80.5	95.1
Goodwill	13.8	27.9	124.6	166.3
Total assets	207.9	81.3	119.6	408.8
Long-term debt	82.5	3.3		85.8
Total stockholders equity	93.9	12.2	165.4	271.5

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(1) We define EBITDA as net income (loss), plus interest expense, income taxes, and depreciation and amortization, less interest income. EBITDA reconciled to net income (loss) is as follows:

	Nine months ended September 30, 2005			
	Historical Allscripts	Historical A4	Pro forma adjustments	Pro forma combined
	(dollars in millions) (unaudited)			
Net income	$6.3	$8.1	($10.8)	$3.6
Add back:				
Interest expense	2.6			2.6
Depreciation and amortization	4.9	1.2	10.1	16.2
Income taxes		3.6	(1.5)	2.1
Less:				
Interest income	(2.9)	(0.4)	2.2	(1.1)
EBITDA	$10.9	$12.5	$	$23.4

Management uses EBITDA as a measure to assess operating performance and our ability to fund capital expenditures and service debt. We believe that EBITDA provides information that is useful to investors for evaluating our business and understanding our operating performance in a manner similar to management. EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of acquisitions, other amortizations and depreciation, and capital spending. However, EBITDA is not a measure of financial performance computed in accordance with GAAP and should not be considered in isolation or as a substitute for operating income, net income, cash flows from operations, or other statements of operations or cash flow data prepared in conformity with GAAP, or as measures of profitability or liquidity. In addition, EBITDA is susceptible to varying interpretations and calculations, and the amounts presented in this prospectus supplement may not be comparable to similarly titled measures of other companies. EBITDA may not be indicative of historical operating results, and we do not intend for it to be predictive of future results of operations or cash flows. In addition, actual results may differ from those reflected in EBITDA.

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	Year ended December 31, 2004			
	Historical Allscripts	Historical A4	Pro forma adjustments	Pro forma combined
	(in millions, except per share and percentage data) (unaudited)			
Statement of Operations Data:				
Revenues:				
Software and related services	$44.1	$67.2	($7.9)	$103.4
Prepackaged medication	44.7			44.7
Information services	11.9			11.9
Total revenues	100.7	67.2	(7.9)	160.0
Cost of revenue	58.1	26.4		84.5
Gross profit	42.6	40.8	(7.9)	75.5
Operating expenses:				
Selling, general and administrative expenses	37.7	24.0		61.7
Amortization of intangibles	1.8	0.5	13.4	15.7
Income (loss) from operations	3.1	16.3	(21.3)	(1.9)
Income (loss) before income taxes	3.1	16.4	(24.1)	(4.6)
Income taxes		(3.9)	3.9	
Net income (loss)	$3.1	$20.3	($28.0)	($4.6)
Net income (loss) per share basic	$0.08			($0.09)
Net income (loss) per share diluted	$0.07			($0.09)
Weighted-average shares of common stock outstanding used in computing net income (loss) per share basic	39.0		10.8	49.8
Weighted-average shares of common stock outstanding used in computing net income (loss) per share diluted	41.6		10.8	49.8
Other Financial and Operating Data:				
EBITDA[(1)]	$8.1	$17.3	($7.9)	$17.5
Backlog	67.1	25.9		93.0
Bookings for software and information services segments	65.9	45.4		111.3
Percentage of revenues by segment:				
Software and related services	43.8%	100%		64.6%
Prepackaged medications	44.4%			27.9%
Information services	11.8%			7.5%

(1) We define EBITDA as net income (loss), plus interest expense, income taxes and depreciation and amortization, less interest income. EBITDA reconciled to net income (loss) is as follows:

	Year ended December 31, 2004			
	Historical	Historical	Pro forma	Pro forma

	Allscripts	A4	adjustments	combined
	(dollars in millions) (unaudited)			
Net income (loss)	$3.1	$20.3	($28.0)	($4.6)
Add back:				
Interest expense	1.7	0.1	1.7	3.5
Depreciation and amortization	5.0	1.0	13.4	19.4
Income taxes		(3.9)	3.9	
Less:				
Interest income	(1.7)	(0.2)	1.1	(0.8)
EBITDA	$8.1	$17.3	($7.9)	$17.5

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Management uses EBITDA as a measure to assess operating performance and our ability to fund capital expenditures and service debt. We believe that EBITDA provides information that is useful to investors for evaluating our business and understanding our operating performance in a manner similar to management. EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of acquisitions, other amortizations and depreciation, and capital spending. However, EBITDA is not a measure of financial performance computed in accordance with GAAP and should not be considered in isolation or as a substitute for operating income, net income, cash flows from operations, or other statements of operations or cash flow data prepared in conformity with GAAP, or as measures of profitability or liquidity. In addition, EBITDA is susceptible to varying interpretations and calculations, and the amounts presented in this prospectus supplement may not be comparable to similarly titled measures of other companies. EBITDA may not be indicative of historical operating results, and we do not intend for it to be predictive of future results of operations or cash flows. In addition, actual results may differ from those reflected in EBITDA.

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Allscripts Summary Consolidated Financial Information

The following summary consolidated historical financial information for the three years ended December 31, 2004 was derived from our audited historical financial statements incorporated by reference in this prospectus supplement. The following summary consolidated historical financial information for the nine months ended September 30, 2005 and 2004 was derived from our unaudited consolidated financial statements incorporated by reference in this prospectus supplement. Financial data for the nine months ended September 30, 2005 and 2004 is not necessarily indicative of our results of operations or financial condition for any future period or as of any future date. You should read the information set forth below in conjunction with Selected Historical Financial and Other Data Allscripts and Unaudited Pro Forma Condensed Combined Financial Statements included elsewhere in this prospectus supplement and with our consolidated financial statements and related notes, and Management s Discussion and Analysis of Financial Condition and Results of Operations from our Annual Report on Form 10-K as of and for the year ended December 31, 2004 and from our Quarterly Report on Form 10-Q as of and for the three and nine months ended September 30, 2005, each incorporated by reference herein.

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	Year ended December 31,			Nine months ended September 30,	
	2002[1]	2003[2]	2004	2004	2005
	(audited) (in millions, except per share and percentage data)			(unaudited)	
Statement of Operations Data:					
Revenues:					
Software and related services	$19.9	$28.3	$44.1	$29.8	$46.9
Prepackaged medications	49.3	46.2	44.7	35.4	32.8
Information services	9.6	11.3	11.9	9.3	6.6
Total revenues	78.8	85.8	100.7	74.5	86.3
Cost of revenue	58.9	55.1	58.1	44.2	47.1
Gross profit	19.9	30.7	42.6	30.3	39.2
Operating expenses:					
Selling, general and administrative expenses	36.4	36.0	37.7	27.3	31.8
Amortization of intangibles	0.6	1.0	1.8	1.3	1.3
Restructuring and other charges	0.6				
Income (loss) from operations	(17.7)	(6.3)	3.1	1.7	6.1
Income (loss) before income taxes	(15.2)	(5.0)	3.1	1.7	6.3
Income taxes					
Net income (loss)	($15.2)	($5.0)	$3.1	$1.7	$6.3
Net income (loss) per share basic	($0.40)	($0.13)	$0.08	$0.04	$0.16
Net income (loss) per share diluted	($0.40)	($0.13)	$0.07	$0.04	$0.15
Weighted-average shares of common stock outstanding used in computing net income (loss) per share basic	38.3	38.6	39.0	39.1	39.9
Weighted-average shares of common stock outstanding used in computing net income (loss) per share diluted	38.3	38.6	41.6	41.8	43.0
Other Financial and Operating Data (unaudited):					
Backlog	$35.0	$46.3	$67.1	$51.8	$78.9
Bookings for software and information services segments	33.3	43.1	65.9	36.3	55.8
Percentage of revenues by segment:					
Software and related services	25.3%	33.0%	43.8%	40.0%	54.3%
Prepackaged medications	62.6%	53.8%	44.4%	47.5%	38.0%
Information services	12.1%	13.2%	11.8%	12.5%	7.7%

	As of September 30, 2005		
	(unaudited) (in millions)		
	Actual	As adjusted[3]	Pro forma

			as adjusted[4]
Balance Sheet Data (at end of period):			
Cash, cash equivalents and marketable securities	$136.0	$253.8	$52.5
Working capital	97.7	215.5	73.2
Goodwill and intangible assets, net	23.4	23.4	261.4
Total assets	207.9	325.7	408.8
Long-term debt	82.5	82.5	85.8
Total stockholders equity	93.9	211.7	271.5

(1) In July 2001, we announced and began implementation of a restructuring plan to realign our organization, prioritize our initiatives around high-growth areas of our business, focus on profitability, reduce operating

expenses, and focus sales and service efforts on larger physician practices, academic medical centers, and integrated delivery networks. During 2001, we recorded charges of $1.1 million related to the termination of certain agreements and non-cancelable leases, $4.3 million related to the termination of unprofitable customer contracts, and $3.3 million related to severance and related benefits for workforce reduction. During 2002, we recorded $0.4 million for severance costs in connection with the departure of the former chief financial officer and an additional charge of $0.2 million for remaining workforce reductions.

(2) On August 1, 2003, we acquired 100% of the outstanding common stock of Advanced Imaging Concepts, Inc. On August 8, 2003, we acquired certain assets and assumed certain liabilities of RxCentric Inc.

(3) As adjusted column gives effect to the sale of 7,300,000 shares of our common stock in this offering and our receipt of approximately $117.8 million of net proceeds, based on an assumed public offering price of $17.11 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 9, 2006) and after deducting underwriting discounts and commissions and estimated expenses of this offering payable by us, as described under Use of Proceeds.

(4) Pro forma as adjusted column gives effect to this offering and the A4 Acquisition based on the assumptions set forth in Unaudited Pro Forma Condensed Combined Financial Statements included herein. We cannot assure you that the A4 Acquisition will be consummated on the terms described herein or at all. See The A4 Acquisition.

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A4 Summary Consolidated Financial Information

The following summary consolidated historical financial information for the three years ended December 31, 2004 was derived from A4 s audited historical financial statements, incorporated by reference in this prospectus supplement. The following summary historical financial information for the nine months ended September 30, 2005 and 2004 was derived from A4 s unaudited consolidated financial statements, incorporated by reference in this prospectus supplement. Financial data for the nine months ended September 30, 2005 and 2004 is not necessarily indicative of A4 s results of operations or financial condition for any future period or as of any future date. You should read the information set forth below in conjunction with Selected Historical Financial and Other Data A4 and Unaudited Pro Forma Condensed Combined Financial Statements included elsewhere in this prospectus supplement and A4 s consolidated financial statements and related notes, incorporated by reference herein.

	Year ended December 31,			Nine months ended September 30,	
	2002	**2003**	**2004**	**2004**	**2005**
		(audited)		(unaudited)	
	(dollars in millions)				
Statement of Operations Data:					
Revenues	$32.5	$47.7	$67.2	$52.8	$55.9
Cost of revenues	14.8	21.6	26.4	19.9	23.4
Gross profit	17.7	26.1	40.8	32.9	32.5
Operating expenses	15.3	18.7	24.5	17.2	21.2
Operating income	2.4	7.4	16.3	15.7	11.3
Other income (expense), net	0.1		0.1		0.4
Income before income taxes	2.5	7.4	16.4	15.7	11.7
Income tax expense (benefit)		0.4	(3.9)	(3.7)	3.6
Net income	$2.5	$7.0	$20.3	$19.4	$8.1

				As of September 30, 2005
				(unaudited)
Balance Sheet Data (at end of period):				
Cash, cash equivalents and marketable securities	$11.1	$14.9	$20.7	$24.1
Working capital	(3.9)	(9.0)	11.9	14.4
Total assets	36.3	56.1	64.5	81.3
Long-term debt				3.3
Total stockholder s equity (deficit)	(21.0)	(16.3)	1.6	12.2

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RISK FACTORS

Investing in our common stock involves risks. You should carefully consider the risks described below, as well as the other information included in this prospectus supplement, the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus, before you decide to invest in our common stock. The risks described below replace and supersede the risks described in the accompanying prospectus under the heading Risk Factors in their entirety. The risks and uncertainties described below are not the only ones we face.

Risks Related to Our Business

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 assure you 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 pharmaceutical healthcare delivery, our business, financial condition and results of operations will be adversely affected.

If we are unable to successfully integrate businesses we acquire, our ability to expand our product and service offerings and our customer base may be limited.

In order to expand our product and service offerings and grow our business by reaching new customers, we may continue to acquire businesses that we believe are complementary. The successful integration of acquired businesses, including A4 if that acquisition is consummated, is critical to our success. Such acquisitions, including the A4 Acquisition, involve numerous risks, including difficulties in the assimilation of the operations, services, products and personnel of the acquired company, the diversion of management s attention from other business concerns, entry into markets in which we have little or no direct prior experience, the potential loss of the acquired company s key employees and our inability to maintain the goodwill of the acquired businesses. If we fail to successfully integrate acquired businesses or fail to implement our business strategies with respect to these acquisitions, we may not be able to achieve projected results or support the amount of consideration paid for such acquired businesses.

The successful implementation of our acquisition strategy depends on our ability to identify suitable acquisition candidates, acquire companies on acceptable terms, integrate their operations and technology successfully with our own and maintain the goodwill of the acquired business. We are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed. Moreover, in pursuing acquisition opportunities, we may compete for acquisition targets with other companies with similar growth strategies. Some of these competitors may be larger and have greater financial and other resources than we have. Competition for these acquisition targets could also result in increased prices of acquisition targets.

Our business will be harmed if we cannot maintain our strategic alliance agreement and the cross license agreement with IDX or if we are unable to enter into and maintain relationships with IDX customers.

In 2001, we entered into a 10-year strategic alliance agreement with IDX Systems Corporation (IDX) pursuant to which we and IDX agreed to coordinate product development and align our respective marketing processes. Under this agreement, IDX had granted us the exclusive right to market, sell, license and distribute ambulatory point-of-care and clinical EHR solutions to IDX customers. On January 4, 2006, IDX was acquired by GE and on January 18, 2006, we, IDX and GE amended and restated our strategic alliance agreement. Under this amended agreement, the exclusivity provisions of the original agreement were modified such that, in addition to our solutions, GE may market its Centricity electronic health record ambulatory solution to IDX customers. After July 18, 2007, these exclusivity provisions will terminate and IDX may, but will not be required to, market our solutions to its customers. Further, under the original agreement, we were restricted from providing practice management systems. The amended agreement eliminates these restrictions, except that if we acquire a practice management system, we may not market or provide such system to the existing IDX customer base until July 18, 2007. As a result, if the A4 Acquisition is consummated, we will not be permitted to market or provide the A4 practice management systems to the existing IDX customer base during that period. We have historically generated a significant portion of our revenues from IDX customers. In that regard, approximately 78% and 71%, of our revenues for the year ended December 31, 2004 and the nine months ended September 30, 2005, respectively, were from sales to members of IDX s customer base pursuant to the IDX strategic alliance. If we are unable to compete effectively against the Centricity product or are otherwise unable to maintain sales to IDX customers at the levels we have historically experienced, our revenues may decrease and our results of operations may be harmed. Additionally, if certain competitors of IDX or GE acquire us prior to July 18, 2007, the above-described restrictions on IDX s ability to market products competitive to our products will terminate.

Under the amended agreement, we and IDX will continue to cooperate with respect to installation and implementation of one another s products for common IDX and Allscripts customers and in the provision of customer support services to ensure that such products remain interoperable. If the amended agreement is terminated for any reason, or if IDX and GE were to fail to fulfill their obligations under the amended agreement, we would lose the benefits of the amended agreement, which could harm our business, financial condition and results of operations.

We also have a cross license and software maintenance agreement with IDX pursuant to which we granted IDX a non-exclusive, non-cancelable and non-terminable license to use, market and sublicense certain of our software combined with IDX products, and IDX granted us a non-exclusive, non-cancelable and non-terminable license to use, market and sublicense certain IDX software for use with our products. If the amended agreement is terminated, we will not have access to certain IDX software, harming our ability to integrate our services with IDX systems and provide real-time data synchronization. This may make our systems less desirable to IDX customers and could harm our business, financial condition and results of operations.

It is difficult to predict the sales cycle for our healthcare software solutions and physician education services.

The duration of the sales cycle for our healthcare software solutions and physician education services 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, and is difficult to predict. Our sales and marketing efforts with respect to hospitals and large healthcare 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 increase and our revenues could decrease, which could harm our business, financial condition and results of operations.

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 healthcare 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 and this 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 policies of our management and other key personnel and our ability to continue to attract, motivate and retain highly qualified employees. In particular, the services of Glen E. Tullman, our Chairman and Chief Executive Officer, are integral to the execution of our business strategy. If one or more of our key employees leaves our employment, we will have to find a replacement with the combination of skills and attributes necessary to execute our strategy. 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 assure you 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 industry standards and introduce new products and services. We cannot assure you 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.

If we cannot adapt to changing technologies, our products and services may become obsolete, and our business could suffer. Because the Internet and healthcare information markets are 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.

Because our business model has changed in recent years, our operating history is not indicative of our future performance, and our business is difficult to evaluate.

Because our business model has changed and evolved in recent years, we do not have an extensive operating history upon which you can evaluate our business, financial condition or results of operations. In implementing our business model, we significantly changed our business operations, sales and implementation practices, customer service and support operations and management focus. We also face new risks and challenges, including a lack of meaningful historical financial data upon which to plan future budgets and the need to develop strategic relationships and pursue other strategic opportunities. In addition, as a result of the A4 Acquisition, we face other risks related to our business model described below, including the risks described under Risks Related to the Acquisition.

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Our business depends in part on and will continue to depend 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 healthcare 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 and increased amortization expense.

Future acquisitions may result in potentially dilutive issuances of equity securities, for example, in connection with the A4 Acquisition, we expect to issue 3,500,000 shares of our common stock to the A4 shareholders. In addition, future acquisitions may result in the incurrence of debt, the assumption of known and unknown liabilities, the write off of software development costs and the amortization of expenses related to intangible assets, all of which 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. In connection with the A4 Acquisition, we expect to incur a restructuring charge of approximately $2-$3 million; however, the actual charge may be greater than this amount.

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

Complex software such as ours often contains undetected defects or errors. It is possible that such errors may be found after 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 might 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 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 release;
- product liability claims;
- delays in or loss of market acceptance of our solutions;
- license terminations or renegotiations; and
- unexpected expenses and diversion of resources to remedy errors.

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Furthermore, our customers might use our software together with products from other companies. 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 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 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.

We have experienced losses in the past and we may not remain profitable in the future.

We generated net income of approximately $6.3 million in the nine months ended September 30, 2005 and approximately $3.1 million in the year ended December 31, 2004 and net losses of approximately $5.0 million and approximately $15.2 million in the years ended December 31, 2003 and 2002, respectively. Giving effect to the A4 Acquisition as if it has occurred on January 1, 2004, we would have generated net income of approximately $3.6 million for the nine months ended September 30, 2005 and a net loss of approximately $4.6 million for the year ended December 31, 2004. We cannot be certain that we will generate sufficient revenues to maintain profitability in any future periods. If our revenues grow more slowly than we anticipate, or if our operating expenses increase more than we expect or cannot be reduced in the event of lower revenues, our business, financial condition and results of operations will be adversely affected.

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

The market for our products and services is fragmented, intensely competitive and is characterized by rapidly evolving industry 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 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 one 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;
- reputation;
- reliability, accuracy and security;

client service;

price; and

industry expertise and experience.

Our Clinical Solutions Group s principal competitors include Cerner Corporation, eClinicalWorks Inc., Emdeon Corporation, formerly known as WebMD corporation, Epic Systems Corporation, General Electric Company (GE), iMedica Corporation, McKesson Corporation, MedHost, Inc., Misys Healthcare Systems, Picis Inc., Quality Systems, Inc. and Wellsoft Corporation. We believe that A4 also competes with these entities. We also face competition from providers of practice management solutions, ambulatory and acute EHR solutions, and enterprise-wide application solutions.

Our Physicians Interactive Group s principal competitors include Aptilon Inc., Dendrite International, Inc., Emdeon Corporation, Lathian Systems, Inc., Medsite, Inc., Quintiles Transnational Corp. and Ventiv Health, Inc. We also face competition from clinical information and education providers, such as disease state management companies, full service e-marketing companies, companies who provide electronic detailing software, and the in-house efforts of our clients, including health plans, pharmacy benefit managers, and pharmaceutical companies.

Our Medication Solutions Group s principal competitors include Cardinal Health, Inc., DRx (a wholly owned subsidiary of Purkinje, Inc.), McKesson Corporation, PD-Rx Pharmaceuticals, Inc., Pharmapac, Physicians Total Care, Inc., Southwood Pharmaceuticals, Inc. and various other regional distributors. We also face competition from providers of other medication repackaging service and bulk pharmaceutical distributors.

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.

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 and physician education products. Accordingly, protecting our intellectual property rights is critical to our continued success and our ability to maintain our competitive position. We protect our proprietary rights through a combination of trademark, trade secret and copyright law, confidentiality agreements and technical measures. We generally do not have any patents on our technology. We generally enter into non-disclosure agreements with our employees and consultants and limit access to our trade secrets and technology. We cannot assure you that the steps we have taken will prevent misappropriation of our technology. Misappropriation of our intellectual property would 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 invalidity, and we may incur substantial costs and the diversion of management s time and attention as a result.

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

We could be subject to intellectual property infringement claims as the number of our competitors grows and our applications functionality overlaps with competitive products. While we do not believe that we have infringed or are infringing on any proprietary rights of third parties, we cannot assure you that infringement claims will not be asserted against us or that those claims will be unsuccessful. We could incur substantial costs and diversion of management resources defending any infringement 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 assure you 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.

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Factors beyond our control could cause interruptions in our operations, which would adversely affect our reputation in the marketplace and our business, financial condition and results of operations.

To succeed, we must be able to operate our systems without interruption. Certain of our communications and information services are provided through our third-party service providers. Our operations are vulnerable to interruption by damage from a variety of sources, many of which are not within our control, including without limitation: (1) power loss and telecommunications failures; (2) software and hardware errors, failures or crashes; (3) computer viruses and similar disruptive problems; and (4) fire, flood and other natural disasters.

Any significant interruptions in our services would damage our reputation in the marketplace and have a negative impact on our business, financial condition and results of operations.

We may be liable for use of data we provide.

We provide data for use by healthcare providers in treating patients. Third-party contractors provide us with most of this data. If this data 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 assure you that this coverage will prove to be adequate or will continue to be available on acceptable terms, if at all. A claim brought against us that is uninsured or under-insured could 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 services.

The difficulty of securely transmitting confidential information over the Internet has been a significant barrier to engaging in sensitive communications over the Internet. Our business relies on using the Internet to transmit confidential information. We believe that any well-publicized compromise of Internet security may deter people from using the Internet for these purposes and from using our system to conduct transactions that involve transmitting confidential healthcare information.

It is also possible that third parties could penetrate our network security or otherwise misappropriate patient information and other data. If this happens, our operations could be interrupted, and we could be subject to liability and regulatory action. We may need to devote significant financial and other resources to protect against security breaches or to alleviate problems caused by breaches. We could face financial loss, litigation and other liabilities to the extent that our activities or the activities of third-party contractors involve the storage and transmission of confidential information like patient records or credit information.

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.

If our content and service providers fail to perform adequately, our reputation in the marketplace and our business, financial condition and results of operations could be adversely affected.

We depend on independent content and service providers for many of the benefits we provide through our clinical software and our physician education applications and services, including the maintenance of managed care pharmacy guidelines, drug interaction reviews and the routing of transaction data to third-party payers. If our services are interrupted as a result of any problems with our providers, our reputation in the marketplace could be damaged, which would have an adverse effect on our business, financial condition and results of operations. 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.

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

We expect to continue to derive a significant portion of our revenue from sales of prepackaged medications to physicians. We may be subject to pricing pressures with respect to our future sales of prepackaged medications arising from various sources, including practices of managed care organizations, Internet pharmacies, including those operating in Canada and other countries outside the United States, and government action affecting pharmaceutical reimbursement under Medicare. Our customers and the other entities with which we have a business relationship are affected by changes in regulations and limitations in governmental spending for Medicare and Medicaid programs. Recent actions by Congress could limit government spending for the Medicare and Medicaid programs, limit payments to hospitals and other providers and increase emphasis on competition and 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 of prepackaged medications 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 of prepackaged medications funds some of our working capital requirements, reduced profitability with respect to prepackaged medications could require us to raise additional capital sooner than we would otherwise need.

If we are unable to maintain existing relationships and create new relationships with managed care payers, our business, financial condition and results of operations will be adversely affected.

We rely on managed care organizations to reimburse our physician customers for prescription medications dispensed in their offices. While many of the leading managed care payers and pharmacy benefit managers currently reimburse our physicians for in-office dispensing, none of these payers is under a long-term obligation to do so. If we are unable to increase the number of managed care payers that reimburse for in-office dispensing, or if some or all of the payers who currently reimburse physicians decline to do so in the future, utilization of our products and services would decrease and, therefore, our business, financial condition and results of operations will be adversely affected.

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 numerous multi-defendant lawsuits involving the manufacture and sale of dexfenfluramine, fenfluramine and phentermine. In the event we are found liable in any lawsuits filed against us,

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and if our insurance coverage were inadequate to satisfy these liabilities, it could have an adverse effect on our business, financial condition and results of operations. See Business Legal Proceedings.

If our principal supplier fails or is unable to perform its contract with us, we may be unable to meet our commitments to our customers.

We currently purchase a majority of the medications that we repackage from AmerisourceBergen, pursuant to an agreement which expires on February 1, 2007, with an option to renew for an additional two years upon mutual agreement. If we do not meet certain minimum purchasing requirements, AmerisourceBergen may increase the prices that we pay under this agreement, in which case we would have the option to terminate the agreement. Although we believe that there are a number of other sources of supply of medications, if AmerisourceBergen fails or is unable to perform under our agreement, particularly at certain critical times during the year, we may be unable to meet our commitments to our customers, and our relationships with our customers could suffer.

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, including Microsoft, 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 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 do not maintain and expand our business with our existing customers, our business, financial condition and results of operations could be adversely affected.

Maintenance renewals by A4 s existing customers have been a significant component of A4 s total revenue. Most of our and A4 s maintenance agreements are for a term of one year and automatically renew unless cancelled by the customer. Although historically nearly all of our and A4 s customers continue maintenance, we can not guarantee that our or A4 s customers will not elect to cancel maintenance in the future. In addition, electronic data interchange, or EDI, has been a significant component of A4 s total revenue. EDI transactions are primarily billed on a per transaction basis, and A4 customers could decrease the number of EDI transactions they make for reasons that we cannot control if the A4 Acquisition is consummated. If our customers cancel maintenance renewals or if A4 customers decrease the amount of EDI transactions through A4 s products and services if the A4 Acquisition is consummated, our business, financial condition and results of operations could be harmed.

Our business model also depends on the success of our efforts to sell additional products and services to our existing customers. For example, certain of our Clinical Solutions Group customers initially purchase one or a limited number of our modules. These customers might choose not to expand their use of or purchase additional modules. In addition, 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.

Risks Related to Our Industry

We are subject to a number of existing laws, regulations and industry initiatives, non-compliance with certain of which could shut down 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 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 on a theory that we had assisted our customers in a violation of healthcare laws or regulations. Because our business relationships with physicians are unique, and the healthcare 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. 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 is expected to continue to undergo significant 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 legislation and regulation.

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

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 the Health Insurance Portability and Accountability Act of 1996 (HIPAA), 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. New national standards and procedures under HIPAA include the *Standards for Electronic 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 for healthcare information. The Privacy Standards grant a number of rights to individuals as to their identifiable confidential medical information (called Protected Health Information) and restrict the use and disclosure of Protected Health Information by Covered Entities, defined as health care providers, health care payers, and health care clearinghouses. Generally, the HIPAA standards directly affect Covered Entities. 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. Such a plan, even if not a separate legal entity from us as its sponsor, is included in the HIPAA definition of Covered Entities. We have taken steps we believe to be appropriate and required to bring our group health plan into compliance with HIPAA. We do not believe that 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, the Privacy Standards affect third parties that

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create or access 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 must have a written Business Associate Agreement with such third parties, containing specified written satisfactory assurances that the third party will safeguard Protected Health Information that it creates or accesses and will fulfill other material obligations to support the Covered Entity s own HIPAA compliance. 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 if we do not comply with our Business Associate obligations. In addition, the federal agencies with enforcement authority have taken the position that a Covered Entity can be subject to HIPAA penalties and sanctions for a breach of a Business Associate Agreement. The penalties for a violation of HIPAA by a Covered Entity are significant and could have an adverse impact upon our business, financial condition and results of operations, if such penalties ever were imposed. Additionally, Covered Entities will be required to adopt a unique standard National Provider Identifier (NPI) for use in filing and processing health care claims and other transactions. 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 our customers in a manner that is compliant with the various HIPAA 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. Covered Entities were required to be in compliance with the Security Standards by April 20, 2005 and to use NPIs in standard transactions no later than the compliance dates, which are May 23, 2007 for all but small health plans and one year later for small health plans. We have policies and procedures that we believe assure compliance with all 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 our customers in compliance with the Transaction Standards and Security Standards and are, or will be, capable of being used by our customers in compliance with the NPI 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 liability, fines and lawsuits, termination of our customer contracts or our operations could be shut down. Moreover, because all HIPAA Standards are subject to change or interpretation and because certain other HIPAA Standards, not discussed above, are not yet published, we cannot predict the full future impact of HIPAA on our business and operations. In the event that the HIPAA standards and compliance requirements 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 laws are not preempted by HIPAA 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, has been proposed at both the state and federal level. Such legislation may require holders of such information to implement additional security, reporting or other measures that may require substantial expenditures and may impose liability for a failure to comply with such requirements. In many cases, such proposed state legislation includes provisions that are not preempted by HIPAA. 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.

Electronic Prescribing. The use of our software by physicians to perform a variety of functions, including electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing, is governed by state and federal law. 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 prescription orders, the laws of several states neither specifically permit nor specifically prohibit t