

ALLSCRIPTS HEALTHCARE SOLUTIONS INC

Form FWP

February 21, 2006

**FREE WRITING PROSPECTUS**

**Filed Pursuant to Rule 433**

**Dated February 21, 2006**

**Registration No. 333 129816**

**February 21, 2006**

**Relating to Preliminary**

**Prospectus Supplement**

**dated February 13, 2006**

*This free writing prospectus should be read together with the preliminary prospectus supplement dated February 13, 2006 and the prospectus dated February 13, 2006 (including the documents incorporated by reference in the preliminary prospectus supplement), relating to the offering of our common stock described in the preliminary prospectus supplement and prospectus.*

Unless this free writing prospectus indicates otherwise or the context otherwise requires (i) the terms we, our, issuer, 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, (iii) references to the A4 Acquisition mean the consummation of our acquisition of A4, as described in the preliminary prospectus supplement, (iv) the term GE refers to General Electric Company, (v) the term IDX refers to IDX Systems Corporation, a wholly owned subsidiary of GE and (vi) the term IIC refers to IDX Investment Corporation, a wholly owned subsidiary of IDX.

#### **IDX Stock Repurchase**

On February 21, 2006, we entered into a purchase agreement with GE, IDX and IIC (which entities we collectively refer to as the GE Entities), pursuant to which we agreed to repurchase from IDX 1,250,000 shares of our common stock at a price per share equal to 95% of the public offering price per share in this offering, which is the net price per share we will receive in this offering. Based on an assumed public offering price of \$18.21 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006), we will repurchase the 1,250,000 shares at a price equal to \$17.30 per share for a total purchase price of approximately \$21.6 million. We will fund the repurchase with available cash. The closing of the repurchase is contingent on the closing of this offering. The terms of the purchase agreement also provide that the GE Entities will not sell any of the remaining shares of our common stock that they own for 60 days from the date of the prospectus supplement relating to this offering, subject to certain exceptions.

After completion of this offering and the IDX stock repurchase (based on 40,873,047 shares of our common stock outstanding as of December 31, 2005), IDX will beneficially own 5,827,138 shares of our common stock or approximately 12.4% of our outstanding shares.

#### **Supplemental Risk Factor Related to our Common Stock**

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*Future sales of our common stock in the public market could adversely affect the trading price of our common stock 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 September 30, 2005, we had:

40,756,971 shares of common stock outstanding;

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

8,687,754 shares of common stock reserved and available for issuance pursuant to stock options and other awards outstanding under 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; 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.

On February 21, 2006, we entered into a purchase agreement with the GE Entities pursuant to which we agreed to repurchase from IDX 1,250,000 shares of our common stock at a price per share equal to 95% of the public offering price per share in this offering, which is the net price per share we will receive in this offering. The closing of the repurchase is contingent on the closing of this offering. The terms of the purchase agreement also provide that the GE Entities will not sell any of the remaining shares of our common stock that they own for 60 days from the date of the prospectus supplement relating to this offering, subject to certain exceptions. After completion of this offering and the IDX stock repurchase (based on 40,873,047 shares of our common stock outstanding as of December 31, 2005), IDX will beneficially own 5,827,138 shares of our common stock or approximately 12.4% of our outstanding shares. We are a party to a stock rights and restrictions agreement with IDX which may impose restrictions on the ability of the GE Entities to sell shares of our common stock after the expiration of the 60-day period described above and the manner of such future sales. However, the GE Entities retain the ability to sell substantial amounts of our common stock in the public market. Sales of substantial amounts of our common stock by the GE Entities in the public market, or the perception that such sales could occur, could adversely affect the prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity related securities, including this offering.

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. Upon completion of this offering and the stock repurchase described above, we will have 46,998,000 shares of common stock outstanding. All shares sold in the concurrent offering will be freely tradable without restrictions or further registration under the Securities Act of 1933, as amended. 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 under "The A4 Acquisition" in the preliminary prospectus supplement. Although certain of these shares are being held in an indemnity escrow account and certain of the A4 shareholders have agreed to a lock-up with respect to these shares, these shares will generally be freely tradeable pursuant to Rule 145 of the Securities Act; provided that affiliates of A4 will be required to comply with certain of the resale restrictions set forth in Rule 144 of the Securities Act. In addition, 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.

Our outstanding 3.50% convertible senior debentures are convertible at the option of the holders into shares of our common stock, subject to the certain conditions set forth in the indenture governing these debentures. Any shares of common stock issued on conversion of these debentures and subsequently sold will be freely tradable in the public markets without restriction. In addition, we will be required to repurchase these debentures following certain change in control events relating to us, and the holders of these debentures will have the option to require us to purchase all or a portion of their debentures on July 15, 2009, July 15, 2014 and July 15, 2019. The conversion of these debentures into common stock or the issuance of common stock to pay the purchase price of any such debentures could result in the issuance of a substantial number of shares of our common stock and substantial dilution to our stockholders.

**Summary Unaudited Pro Forma Condensed Combined Financial Information**

The following summary unaudited pro forma condensed combined financial information replaces the summary unaudited pro forma condensed combined financial information contained in our preliminary prospectus supplement and was derived from the unaudited pro forma condensed combined financial statements of Allscripts and A4 incorporated by reference in the preliminary 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 the preliminary 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 the preliminary prospectus supplement. The unaudited pro forma condensed combined financial information gives effect to this offering, the application of the estimated net proceeds therefrom, the IDX stock repurchase 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 \$125.4 million of net proceeds, based on an assumed public offering price of \$18.21 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006) and after deducting underwriting discounts and commissions and estimated expenses of this offering payable by us, as described under **Use of Proceeds** below. The summary unaudited pro forma condensed combined financial information gives effect to the repurchase of 1,250,000 shares of our common stock from IDX for an aggregate purchase price of \$21.6 million, based on an assumed price per share of \$17.30 which is 95% of the assumed public offering price per share in this offering (the assumed net price per share we will receive in this offering) of \$18.21 (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006). This offering is not conditioned upon the consummation of the A4 Acquisition or the IDX stock repurchase. We cannot assure you that the A4 Acquisition or the IDX stock repurchase will be consummated on the terms described in the preliminary prospectus supplement 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 **Unaudited Pro Forma Condensed Combined Financial Statements**, **Capitalization** and **Use of Proceeds** below, under the caption **The A4 Acquisition** in the preliminary prospectus supplement 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 the preliminary 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 in the preliminary prospectus supplement.

	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)			
<b>Statement of Operations Data:</b>				
Revenues:				
Software and related services	\$46.9	\$55.9	\$	\$102.8
Prepackaged medications	32.8			32.8
Information services	6.6			6.6
<b>Total revenues</b>	<b>86.3</b>	<b>55.9</b>		<b>142.2</b>
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
<b>Income from operations</b>	<b>6.1</b>	<b>11.3</b>	<b>(10.1)</b>	<b>7.3</b>
Income before income taxes	6.3	11.7	(12.8)	5.2
Income taxes		3.6	(1.6)	2.0
<b>Net income</b>	<b>\$6.3</b>	<b>\$8.1</b>	<b>(\$11.2)</b>	<b>\$3.2</b>
Net income per share - basic	\$0.16			\$0.06
Net income per share - diluted	\$0.15			\$0.06
Weighted-average shares of common stock outstanding used in computing net income per share - basic	39.9		9.5	49.4
Weighted-average shares of common stock outstanding used in computing net income per share - diluted	43.0		9.5	52.5
<b>Other Financial and Operating Data:</b>				
EBITDA <sup>(1)</sup>	\$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%
<b>Balance Sheet Data (at end of period):</b>				
Cash, cash equivalents and marketable securities	\$136.0	\$24.1	(\$121.6)	\$38.5
Working capital	97.7	14.4	(52.9)	59.2
Intangible assets, net	9.6	5.0	80.5	95.1
Goodwill	13.8	27.9	128.5	170.2
Total assets	207.9	81.3	109.5	398.7
Long-term debt	82.5	3.3		85.8
Total stockholders' equity	93.9	12.2	155.3	261.4



- (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	(\$11.2)	\$3.2
Add back:				
Interest expense	2.6			2.6
Depreciation and amortization	4.9	1.2	10.1	16.2
Income taxes		3.6	(1.6)	2.0
Less:				
Interest income	(2.9)	(0.4)	2.7	(0.6)
<b>EBITDA</b>	<b>\$10.9</b>	<b>\$12.5</b>	<b>\$</b>	<b>\$23.4</b>

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 free writing prospectus 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.

	Year ended December 31, 2004			
	Historical Allscripts	Historical A4	Pro forma adjustments	Pro forma combined
(in millions, except per share and percentage data) (unaudited)				
<b>Statement of Operations Data:</b>				
Revenues:				
Software and related services	\$44.1	\$67.2	(\$7.9)	\$103.4
Prepackaged medications	44.7			44.7
Information services	11.9			11.9
<b>Total revenues</b>	<b>100.7</b>	<b>67.2</b>	<b>(7.9)</b>	<b>160.0</b>
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
<b>Income (loss) from operations</b>	<b>3.1</b>	<b>16.3</b>	<b>(21.3)</b>	<b>(1.9)</b>
Income (loss) before income taxes	3.1	16.4	(24.4)	(4.9)
Income taxes		(3.9)	3.9	
<b>Net income (loss)</b>	<b>\$3.1</b>	<b>\$20.3</b>	<b>(\$28.3)</b>	<b>(\$4.9)</b>
Net income (loss) per share basic	\$0.08			(\$0.10)
Net income (loss) per share diluted	\$0.07			(\$0.10)
Weighted-average shares of common stock outstanding used in computing net income (loss) per share basic	39.0		9.5	48.5
Weighted-average shares of common stock outstanding used in computing net income (loss) per share diluted	41.6		9.5	48.5
<b>Other Financial and Operating Data:</b>				
EBITDA <sup>(1)</sup>	\$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 Allscripts	Historical A4	Pro forma adjustments	Pro forma combined
	(dollars in millions)			
	(unaudited)			
Net income (loss)	\$3.1	\$20.3	(\$28.3)	(\$4.9)
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)	1.4	(0.5)
<b>EBITDA</b>	<b>\$8.1</b>	<b>\$17.3</b>	<b>(\$7.9)</b>	<b>\$17.5</b>

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 free writing prospectus 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.

## CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2005:

on an actual basis, and

on a pro forma basis to give effect to the following transactions as if they had occurred on that date:

The A4 Acquisition for approximately \$278.7 million, of which approximately \$215.0 million is payable in cash and approximately \$63.7 million is payable through the issuance of 3,500,000 shares of our common stock (based on the last reported sale price of \$18.21 per share of our common stock on the Nasdaq National Market on February 17, 2006);

The sale of 7,300,000 shares of our common stock in this offering and our receipt of approximately \$125.4 million of net proceeds, based on the assumed public offering price of \$18.21 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006) and after deducting underwriting discounts and commissions and estimated expenses of this offering payable by us and the assumed application of all of the proceeds of this offering to pay a portion of the cash purchase price for the A4 Acquisition; and

The repurchase of 1,250,000 shares of our common stock owned by IDX for a total purchase price of approximately \$21.6 million (based on 95% of the assumed public offering price of \$18.21 per share, which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006, which is the net price per share we will receive in this offering).

	As of September 30, 2005	
	Actual	Pro forma <sup>(1)</sup>
	(dollars in millions, except share data)	
Cash, cash equivalents and marketable securities	\$136.0	\$38.5
Long-term debt	\$82.5	\$85.8
Total debt	82.5	86.0
Preferred stock:		
\$0.01 par value per share; 1.0 million shares authorized; no shares issued and outstanding		
Common stock:		
\$0.01 par value per share; 150.0 million shares authorized; 42.2 million shares issued and 40.8 million shares outstanding, actual and 51.7 million shares, pro forma	0.4	0.4
Less treasury stock:		
\$0.01 par value; 1.4 million shares issued, actual and no shares, pro forma <sup>(2)</sup>	(11.2)	
Additional paid-in capital	655.0	811.3
Accumulated deficit	(549.1)	(549.1)

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Deferred stock based compensation	(0.4)	(0.4)
Accumulated other comprehensive income	(0.8)	(0.8)
Total stockholders' equity	93.9	261.4
Total capitalization	\$176.4	\$347.4

<sup>(1)</sup> You should read the following table in conjunction with the financial statements incorporated by reference in the preliminary prospectus supplement and the related notes thereto, the pro forma financial data included in this free writing prospectus and the related notes thereto, the information included under the caption "Use

of Proceeds below and under the caption The A4 Acquisition in the preliminary prospectus supplement. The following pro forma data is based upon a number of assumptions and estimates, including those set forth in Unaudited Pro Forma Condensed Combined Financial Statements in this free writing prospectus, is subject to uncertainties and does not purport to be indicative of the actual capitalization that would have resulted had the transactions described above in fact occurred on the date indicated, nor does it purport to be indicative of our future capitalization. We cannot assure you that the A4 Acquisition will be consummated on the terms described in the preliminary prospectus supplement or at all.

<sup>(2)</sup> Of the 7,300,000 shares being issued in this offering, 1,400,000 shares will be issued from treasury.

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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed combined financial statement for the year ended December 31, 2004 replaces the unaudited pro forma condensed combined financial statement for the year ended December 31, 2004 contained in the preliminary prospectus supplement and is based on the audited financial statements of each of Allscripts and A4 incorporated by reference in the preliminary prospectus supplement. The unaudited pro forma condensed combined financial statements as of and for the nine months ended September 30, 2005 replace the unaudited pro forma condensed combined financial statements as of and for the nine months ended September 30, 2005 contained in the preliminary prospectus supplement and are based on the unaudited financial statements of each of Allscripts and A4 incorporated by reference in the preliminary prospectus supplement. The unaudited pro forma condensed combined financial statements give effect to this offering, the application of net proceeds therefrom, the IDX stock repurchase, the A4 Acquisition, and the assumptions and adjustments described in the accompanying notes, as if each had occurred on January 1, 2004 in the case of the unaudited pro forma condensed combined statement of operations and September 30, 2005 in the case of balance sheet data. The unaudited pro forma condensed combined financial statements give effect to the sale of 7,300,000 shares of our common stock in this offering and our receipt of approximately \$125.4 million of net proceeds, based on an assumed public offering price of \$18.21 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006) and after deducting underwriting discounts and commissions and estimated expenses of this offering payable by us, as described under *Use of Proceeds* below. The unaudited pro forma condensed combined financial statements give effect to the repurchase of 1,250,000 shares of our common stock from IDX for an aggregate purchase price of \$21.6 million, based on an assumed price per share of \$17.30 which is 95% of the assumed public offering price per share in this offering (the assumed net price per share we will receive in this offering) of \$18.21 (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006). This offering is not conditioned upon the consummation of the A4 Acquisition or the IDX stock repurchase. We cannot assure you that the A4 Acquisition or the IDX stock repurchase will be consummated on the terms described in the preliminary prospectus supplement or at all.

The pro forma adjustments are based upon available information, preliminary estimates and certain assumptions that we believe are reasonable and are described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined financial statements do not take into account (i) any synergies or cost savings that may or are expected to occur as a result of the A4 Acquisition or (ii) any cash or non-cash charges that we may incur in connection with the A4 Acquisition, the level and timing of which cannot yet be determined. The unaudited pro forma condensed combined financial statements have been prepared in accordance with SEC rules and regulations.

The unaudited pro forma condensed combined financial statements assume that the A4 Acquisition would be accounted for using the purchase method of accounting in accordance with the Financial Accounting Standards Board, or FASB, Statement No. 141, *Business Combinations*, or SFAS No. 141, and the resultant goodwill and other intangible assets will be accounted for under FASB Statement No. 142, *Goodwill and Other Intangible Assets*, or SFAS No. 142. The total purchase price has been preliminarily allocated based on information available to us as of the date of this prospectus supplement, to the tangible and intangible assets acquired and liabilities assumed based on management's preliminary estimates of their current fair values. These estimates and assumptions of fair values of assets acquired and liabilities assumed and related operating results are subject to change that could result in material differences between the actual amounts and those reported in the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial statements are provided for informational purposes only and are subject to a number of uncertainties and assumptions and do 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 financial position or results of operations as of any future date or for any future period. You should read the following information in conjunction with the other information

contained under the captions Capitalization above and Use of Proceeds below, under the caption The A4 Acquisition in the preliminary prospectus supplement 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 the preliminary 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 in the preliminary prospectus supplement.

## Unaudited Pro Forma Condensed Combined Statement of Operations

Nine months ended September 30, 2005

	For the nine months ended September 30, 2005			
	Historical Allscripts	Historical A4	Pro forma adjustments (Note 4)	Pro forma combined
	(in millions, except per share data)			
<b>Revenues:</b>				
Software and related services	\$46.9	\$55.9	\$	\$102.8
Prepackaged medications	32.8			32.8
Information services	6.6			6.6
<b>Total revenues</b>	<b>86.3</b>	<b>55.9</b>		<b>142.2</b>
<b>Cost of revenue:</b>				
Software and related services	16.6	23.4		40.0
Prepackaged medications	27.2			27.2
Information services	3.3			3.3
<b>Total cost of revenue</b>	<b>47.1</b>	<b>23.4</b>		<b>70.5</b>
<b>Gross profit</b>	<b>39.2</b>	<b>32.5</b>		<b>71.7</b>
<b>Operating expenses:</b>				
Selling, general and administrative expenses	31.8	20.6		52.4
Amortization of intangible assets	1.3	0.6	10.1 <sup>(C)</sup>	12.0
<b>Income from operations</b>	<b>6.1</b>	<b>11.3</b>	<b>(10.1)</b>	<b>7.3</b>
Interest income	2.9	0.4	(2.7) <sup>(H)</sup>	0.6
Interest expense	(2.6)			(2.6)
Other income (expense), net	(0.1)			(0.1)
<b>Income before income taxes</b>	<b>6.3</b>	<b>11.7</b>	<b>(12.8)</b>	<b>5.2</b>
Income taxes		3.6	(1.6) <sup>(J)</sup>	2.0
<b>Net income</b>	<b>\$6.3</b>	<b>\$8.1</b>	<b>(\$11.2)</b>	<b>\$3.2</b>
<b>Net income per share:</b>				
Basic	\$0.16			\$0.06
Diluted	\$0.15			\$0.06
<b>Weighted average common shares outstanding (Note 2):</b>				
Basic	39.9		9.5 <sup>(K)</sup>	49.4
Diluted	43.0		9.5 <sup>(K)</sup>	52.5

## Unaudited Pro Forma Condensed Combined Statement of Operations

Year ended December 31, 2004

	For the year ended December 31, 2004			
	Historical Allscripts	Historical A4	Pro forma adjustments (Note 4)	Pro forma combined
	(in millions, except per share data)			
<b>Revenues:</b>				
Software and related services	\$44.1	\$67.2	(\$7.9) <sup>(E)</sup>	\$103.4
Prepackaged medications	44.7			44.7
Information services	11.9			11.9
<b>Total revenues</b>	<b>100.7</b>	<b>67.2</b>	<b>(7.9)</b>	<b>160.0</b>
<b>Cost of revenue:</b>				
Software and related services	15.9	26.4		42.3
Prepackaged medications	35.7			35.7
Information services	6.5			6.5
<b>Total cost of revenue</b>	<b>58.1</b>	<b>26.4</b>		<b>84.5</b>
<b>Gross profit</b>	<b>42.6</b>	<b>40.8</b>	<b>(7.9)</b>	<b>75.5</b>
<b>Operating expenses:</b>				
Selling, general and administrative expenses	37.7	24.0		61.7
Amortization of intangible assets	1.8	0.5	13.4 <sup>(C)</sup>	15.7
<b>Income (loss) from operations</b>	<b>3.1</b>	<b>16.3</b>	<b>(21.3)</b>	<b>(1.9)</b>
Interest income	1.7	0.2	(1.4) <sup>(H)</sup>	0.5
Interest expense	(1.7)	(0.1)	(1.7) <sup>(I)</sup>	(3.5)
<b>Income (loss) before income taxes</b>	<b>3.1</b>	<b>16.4</b>	<b>(24.4)</b>	<b>(4.9)</b>
Income taxes		(3.9)	3.9 <sup>(J)</sup>	
<b>Net income (loss)</b>	<b>\$3.1</b>	<b>\$20.3</b>	<b>(\$28.3)</b>	<b>(\$4.9)</b>
<b>Net income (loss) per share:</b>				
Basic	\$0.08			(\$0.10)
Diluted	\$0.07			(\$0.10)
<b>Weighted average common shares outstanding (Note 2):</b>				
Basic	39.0		9.5 <sup>(K)</sup>	48.5
Diluted	41.6		9.5 <sup>(K)</sup>	48.5

## Unaudited Pro Forma Condensed Combined Balance Sheet

As of September 30, 2005

	As of September 30, 2005			
	Historical Allscripts	Historical A4	Pro forma adjustments (Note 4)	Pro forma combined
	(in millions, except per share data)			
<b>Current assets:</b>				
Cash and cash equivalents	\$37.7	\$24.1	(\$23.3) <sup>(A)</sup>	\$38.5
Marketable securities	56.9		(56.9) <sup>(A)</sup>	
Accounts receivable, net	26.8	10.8		37.6
Other receivables	0.6			0.6
Inventories	1.9	1.0		2.9
Deferred income taxes		2.8	22.1 <sup>(D)</sup>	24.9
Prepaid expenses and other current assets	4.9	0.7		5.6
<b>Total current assets</b>	<b>128.8</b>	<b>39.4</b>	<b>(58.1)</b>	<b>110.1</b>
<b>Non-current assets:</b>				
Long-term marketable securities	41.4		(41.4) <sup>(A)</sup>	
Fixed assets, net	2.6	8.7		11.3
Software development costs, net	6.4			6.4
Intangible assets, net	9.6	5.0	80.5 <sup>(C)</sup>	95.1
Goodwill	13.8	27.9	128.5 <sup>(B)</sup>	170.2
Deferred income taxes		0.3		0.3
Other assets	5.3			5.3
<b>Total non-current assets</b>	<b>79.1</b>	<b>41.9</b>	<b>167.6</b>	<b>288.6</b>
<b>Total assets</b>	<b>\$207.9</b>	<b>\$81.3</b>	<b>\$109.5</b>	<b>\$398.7</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Current maturities of long-term debt	\$	\$0.2	\$	\$0.2
Accounts payable and accrued liabilities	16.0	7.4		23.4
Deferred revenues	15.1	17.4	(5.2) <sup>(E)</sup>	27.3
<b>Total current liabilities</b>	<b>31.1</b>	<b>25.0</b>	<b>(5.2)</b>	<b>50.9</b>
<b>Non-current liabilities:</b>				
Long-term debt	82.5	3.3		85.8
Deferred tax liabilities		0.2		0.2
Other long term liabilities	0.4			0.4
<b>Total non-current liabilities</b>	<b>82.9</b>	<b>3.5</b>		<b>86.4</b>
Mandatorily redeemable convertible preferred and common stock		40.6	(40.6) <sup>(F)</sup>	
Commitments and contingencies				
Stockholders' equity	93.9	12.2	155.3 <sup>(G)</sup>	261.4

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Total liabilities and stockholders' equity	\$207.9	\$81.3	\$109.5	\$398.7
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Notes to Unaudited Condensed Combined Pro Forma Financial Statements

1. A4 Acquisition

On January 18, 2006, we entered into an agreement of merger with A4. The merger agreement provides for a business combination whereby a newly formed wholly owned subsidiary of Allscripts will be merged with and into A4, with A4 surviving the merger.

Pursuant to the merger agreement, and subject to the terms and conditions of the merger agreement, we will acquire all of the outstanding equity interests (including options) of A4 for aggregate merger consideration of \$215 million in cash and 3,500,000 shares of Allscripts common stock, subject to a purchase price adjustment based on changes in working capital.

Our acquisition of A4 has been accounted for as a business combination under SFAS No. 141. Assets acquired and liabilities assumed were recorded at their fair values as of September 30, 2005. The total preliminary purchase price is \$289.1 million, including acquisition related transaction costs and is comprised of:

	(in millions)
Acquisition of the outstanding common stock of A4 (cash of \$215 million, working capital cash of \$6.4 million as of September 30, 2005, and 3,500,000 Allscripts shares at \$18.21 per share, the last sale price of our common stock on February 17, 2006)	\$285.1
Acquisition related transaction costs	4.0
<b>Total preliminary purchase price</b>	<b>\$289.1</b>

Acquisition related transaction costs include our estimate of investment banking fees, loan commitment fee for securing bridge financing, legal and accounting fees and other external costs directly related to the A4 Acquisition.

Under business combination accounting, the total preliminary purchase price will be allocated to A4's net tangible and identifiable intangible assets based on their estimated fair values. Based upon our management's preliminary valuation, the total purchase price will be allocated as follows:

	(in millions)
Goodwill	\$156.4
Identifiable intangible assets	80.5
Net tangible assets	30.1
Net deferred tax assets	22.1
<b>Total preliminary purchase price allocation</b>	<b>\$289.1</b>

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Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. In the event that we determine that the value of goodwill has become impaired, we will incur an accounting charge for the amount of impairment during the fiscal quarter in which such determination is made.

Identifiable intangible assets acquired consist of developed technology, core technology, trade names, customer contracts and software support agreements. The preliminary estimated fair value of identifiable intangible assets was determined by our management and will be finalized based on an independent third-party valuation. In addition, management is also evaluating A4 s in-process research and development costs, which could result in a change in the amount of goodwill recorded.

Net tangible assets were valued at their respective carrying amounts, which we believe approximates fair market value, except for adjustments to deferred revenues. Deferred revenues were reduced by \$5.2 million in the pro forma condensed combined balance sheet, to adjust deferred revenue to an amount equivalent to the estimated cost plus an appropriate profit margin to perform the services related to A4's software and support contracts.

As a result of the proposed A4 Acquisition and the forecasted net income of the combined company, we have reversed our deferred tax asset valuation allowance in conjunction with the purchase accounting for the A4 Acquisition. The reversal of the December 31, 2004 deferred tax valuation allowance totaling \$54.6 million was included in the pro forma balance sheet adjustments as of September 30, 2005.

We have currently not identified any pre-acquisition contingencies where a liability is probable and the amount of the liability can be reasonably estimated. If information becomes available to us prior to the end of the purchase price allocation period, which would indicate that a liability is probable and the amount can be reasonably estimated, such items will be included in the purchase price allocation.

## 2. Offering

The unaudited pro forma condensed combined financial statements give effect to the sale of 7,300,000 shares of our common stock in this offering and our receipt of approximately \$125.4 million of net proceeds, based on an assumed public offering price of \$18.21 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006) and after deducting underwriting discounts and commissions and estimated expenses of this offering payable by us, as described under "Use of Proceeds" below.

## 3. IDX Stock Repurchase

On February 21, 2006, we entered into a purchase agreement with the GE Entities to repurchase 1,250,000 shares of our common stock from IDX. The repurchase amount reflects an aggregate purchase price of \$21.6 million, based on an assumed purchase price per share of \$17.30 which is 95% of the assumed public offering price per share in this offering (the assumed net price per share we will receive in this offering) of \$18.21 (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006). This transaction has been reflected in the pro forma condensed combined financial statements as if it occurred on January 1, 2004.

## 4. Pro Forma Adjustments

The following pro forma adjustments are included in the unaudited pro forma condensed combined balance sheet as of September 30, 2005:

(A) To record the following adjustments to cash:

	<u>(in millions)</u>
To record net proceeds from the this offering (net of \$7.5 million in issuance costs)	\$125.4
To record cash paid for A4 common stock	(221.4)
To record cash paid for A4 deal related costs	(4.0)
To record cash paid for the repurchase of 1,250,000 shares of our common stock from IDX	(21.6)
Reclassification of long-term and short-term marketable securities to cash and cash equivalents	98.3

Total adjustments to cash	<u>(\$23.3)</u>
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(B) To eliminate A4's historical goodwill and record the preliminary fair value of goodwill.

<u>(in millions)</u>	<u>Historical amount, net</u>	<u>Preliminary fair value</u>	<u>Increase</u>
Goodwill	\$27.9	\$156.4	\$128.5

(C) To record the difference between the preliminary fair value and the historical amount of intangible assets.

(in millions)	Historical amount, net	Preliminary fair value	Increase	Annual amortization*	Nine months amortization*	Estimated useful life
Developed technology, core technology, trade names, customer contracts and software support agreements	\$5.0	\$85.5	\$80.5	\$13.9	\$10.7	6 yrs.
Total identifiable intangible assets	\$5.0	\$85.5	\$80.5	\$13.9	\$10.7	
A4 historical amortization				(0.5)	(0.6)	
Net increase in amortization				\$13.4	\$10.1	

\* Pro forma amortization expense is calculated herein using the straight-line method. However, upon completion of our valuation process, we may conclude that intangible assets should be amortized using an accelerated method.

(D) As a result of the A4 Acquisition and the forecasted net income of the combined company, we have reversed our deferred tax asset valuation allowance in conjunction with the purchase accounting for the A4 Acquisition.

To record the adjustment for deferred tax liabilities related to identifiable intangible assets and deferred revenues and the reversal of the December 31, 2004 deferred tax valuation allowance:

(in millions)	Preliminary fair value adjustment	Statutory tax rate	Deferred tax asset (liability)
Increase in identifiable intangible assets	\$80.5	38.0%	(\$30.6)
Decrease in deferred revenues	5.2	38.0%	(1.9)
Deferred tax liabilities	\$85.7		(\$32.5)
Reversal of the December 31, 2004 deferred tax valuation allowance			54.6
Net deferred tax adjustment			\$22.1

(E) To record the preliminary fair value adjustment to deferred revenues acquired. The preliminary fair value represents an amount equivalent to the estimated cost plus an appropriate profit margin, which assumes a legal obligation, to perform services related to A4's new software and product support based on the deferred revenue balances of A4 as of September 30, 2005 and does not reflect the actual fair value adjustment as of the date of acquisition. The following adjustments represent the September 30, 2005 balance sheet adjustment and income statement adjustment for the year ended December 31, 2004:

(in millions)	Historical deferred revenue	Preliminary deferred revenue	Decrease

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	<u>amount, net</u>	<u>fair value</u>	
New software and product support as of September 30, 2005	\$17.4	\$12.2	(\$5.2)
New software and product support as of January 1, 2004	\$26.5	\$18.6	(\$7.9)

- (F) To eliminate \$40.6 million mandatorily redeemable convertible preferred and common stock that was converted to common stock in conjunction with the A4 Acquisition.

(G) To record the following adjustments to stockholders' equity:

	<u>(in millions)</u>
To record net proceeds from this offering	\$125.4
To record the issuance of approximately 3,500,000 shares for A4's outstanding common stock	63.7
To eliminate A4's historical stockholders' equity	(12.2)
To record cash paid for the repurchase of 1,250,000 shares of our common stock from IDX	(21.6)
<b>Total adjustments to stockholders' equity</b>	<b>\$155.3</b>

(H) The cash purchase price payment for the A4 Acquisition and the cash purchase price for the IDX stock repurchase would have resulted in a decrease in interest income for the nine months ended September 30, 2005 and the year ended December 31, 2004, as presented below.

<u>(in millions)</u>	<u>Interest income as reported</u>	<u>Revised interest income-pro forma</u>	<u>Decrease</u>
For the nine months ended September 30, 2005	\$2.9	\$0.2	(\$2.7)
For the year ended December 31, 2004	\$1.7	\$0.3	(\$1.4)

(I) In July 2004, Allscripts completed a private placement of \$82.5 million of 3.50% senior convertible debentures due 2024. These notes can be converted, in certain circumstances, into 7,329,424 shares of our common stock, subject to adjustment. The pro forma condensed combined financial statements have been presented under the assumption that these notes were issued as of January 1, 2004. This assumption resulted in a pro forma adjustment of \$1.7 million in additional interest expense, which consisted of \$1.4 million in interest expense and \$0.3 million in additional amortization of debt issuance costs.

(J) To reverse A4's income tax provision (benefit) to reflect the tax provision related to the pro forma net income (loss) of the combined statements of operations for the nine months ended September 30, 2005 and for the year ended December 31, 2004.

(K) Represents the 3,500,000 shares issued in conjunction with the A4 Acquisition, the issuance of 7,300,000 shares of common stock in this offering and the repurchase of 1,250,000 shares of our common stock from IDX.

### USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately \$125.4 million, or approximately \$144.4 million if the underwriters exercise their option to purchase additional shares in full, in each case assuming a public offering price of \$18.21 per share (the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006) and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will retain broad discretion over the use of the net proceeds from this offering. We intend to use all of the net proceeds from this offering to finance the A4 Acquisition as described under "The A4 Acquisition" in the preliminary prospectus supplement. 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 and 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. Pending application of the net proceeds for these purposes, we intend to invest the net proceeds in interest-bearing short-term investment grade securities.

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