

ALLSCRIPTS HEALTHCARE SOLUTIONS INC  
Form 10-K/A  
April 24, 2003

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2002

or

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

Commission File Number 000-32085

## ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

<b>Delaware</b>	<b>36-4392754</b>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<b>2401 Commerce Drive, Libertyville, Illinois 60048</b>	
(Address of principal executive offices and zip code)	

**(847) 680-3515**

(Registrant's telephone number, including area code)

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

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

**Title of Class**  
**Common Stock, \$0.01 par value per share**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

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The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 28, 2002, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$93,303,000.

The number of outstanding shares of the registrant's Common Stock as of February 28, 2003, was 38,440,520.

Documents Incorporated by Reference: None.

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Effective January 8, 2001, Allscripts, Inc. acquired Channelhealth Incorporated, and each became a wholly owned subsidiary of a new holding company, Allscripts Healthcare Solutions, Inc., which was originally incorporated in Delaware as Allscripts Holding, Inc. on July 11, 2000. As a result of the merger transaction, each outstanding share of Allscripts, Inc. common stock was converted into one share of Allscripts Healthcare Solutions, Inc. common stock. Allscripts, Inc. no longer files reports with the Securities and Exchange Commission, and its common stock is no longer listed on the Nasdaq National Market; however, Allscripts Healthcare Solutions, Inc. does file reports with the Securities and Exchange Commission, and its common stock is listed on the Nasdaq National Market under the symbol "MDRX". In this report, "we", "us", "our" and "Allscripts", when referring to events prior to January 8, 2001, refer to our wholly owned subsidiary and predecessor, Allscripts, Inc., and, when referring to subsequent time periods, refer to Allscripts Healthcare Solutions, Inc. and its wholly owned subsidiaries, including Allscripts, Inc., unless the context indicates otherwise.

TouchScript® and TeleMed® are registered trademarks of Allscripts, Inc., Channelhealth® is a registered trademark of Channelhealth Incorporated, and PATIENT ED® is a registered trademark of Medifor, Inc. Other trademarks of Allscripts Healthcare Solutions, Inc. or of its wholly owned subsidiaries used in this report include: Allscripts , Clinical Works Modules , e-Detailing , FirstFill , HealthFrame , Integration Professional , Physician Channel , Physician Homebase , Physicians Interactive , Pocket Library , TouchWorks and mEMR . All other trademarks, brand marks, trade names and registered marks used in this report are trademarks, brand marks, trade names or registered marks of their respective owners. Allscripts Healthcare Solutions, Inc. owns a number of additional trademarks, including registered trademarks, that are not referenced in this report.

#### EXPLANATORY NOTE REGARDING AMENDED 10-K

We are filing this Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K, which was originally filed with the Securities and Exchange Commission on March 31, 2003, solely (i) to correct a typographical error contained in the "Net loss per share-basic and diluted" line of the "Statements of Operations Data" table contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations Selected Quarterly Operating Results," of the originally filed Form 10-K, and (ii) to include the information required by Part III. Certain of this information was to be incorporated by reference into the originally filed Form 10-K but will not be because we will not be filing our annual meeting proxy statement with the Securities and Exchange Commission within 120 days of our fiscal year end.

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

(Dollar amounts in thousands)

*You should read the following discussion and analysis together with "Selected Financial Data" and our consolidated financial statements and related notes included elsewhere in this report. This discussion contains certain forward-looking statements that involve risks, uncertainties and assumptions. You should read the cautionary statements made in this report as applying to related forward-looking statements wherever they appear in this report. Our actual results may be materially different from the results we discuss in the forward-looking statements due to certain factors, including those discussed in "Risk Factors" and other sections of this report.*

**Overview**

Allscripts Healthcare Solutions is a leading provider of clinical software and information solutions for physicians. Our key offerings fall into three business segments. Our software and services segment is comprised primarily of our TouchWorks software business. TouchWorks is a modular electronic medical record (mEMR) designed to enhance physician productivity using a wireless handheld device, Tablet PC, or desktop workstation to automate the most common physician activities. Our information services segment is comprised primarily of Physicians Interactive (PI) business. PI links physicians with pharmaceutical companies and medical suppliers using interactive education sessions to provide product information to the physician. Finally, our prepackaged medications segment is comprised of our Allscripts Direct business. Allscripts Direct provides point-of-care medication, and medical supply management solutions for physicians.

From our inception in 1986 through 1996, we focused almost exclusively on the sale of prepackaged medications to physicians, in particular those with a high percentage of fee-for-service patients. The advent of managed prescription benefit programs required providers to obtain reimbursement for medications dispensed from managed care organizations rather than directly from their patients. This new reimbursement methodology made it more difficult for our physician customers to dispense medications to their patient base.

In 1997, under the direction of a new executive management team, we focused our efforts on the information aspects of medication management, including the development of technology tools necessary for electronic prescribing, routing of prescription information and submission of medication claims for managed care reimbursement. In January 1998, we introduced the first version of our TouchScript software that fully incorporated these features. At the same time, we redirected our sales and marketing efforts away from our traditional fee-for-service customer base to physicians who had a large percentage of managed care patients. We recognized that there was a larger market opportunity among physicians whose patients are covered by managed care plans because the portion of prescriptions covered by managed care plans increased dramatically relative to the portion of fee-for-service prescriptions. Further, we believed and continue to believe that our technology provides a competitive advantage where more patients' prescriptions are covered by managed care plans because our products streamline the process by which physicians, managed care organizations and patients interact.

In 1999, we acquired Telemed Corp. and its Physicians Interactive business. Physicians Interactive has evolved into a leading provider of medication product information to physicians using interactive education sessions via the Internet.

To expand our technology-focused solutions, in May 2000, we acquired MasterChart, Inc., a software developer providing dictation, integration and patient record technology, and Medifor, Inc., a provider of electronic patient education. In addition, in January 2001, we acquired Channelhealth Incorporated, a software developer providing modular software for physicians to access medical

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information and manage clinical workflow. The integration of the technology obtained in these acquisitions along with our electronic prescribing technology formed the core of our TouchWorks software.

We provide three key product and service offerings, each of which focus on the physician. Allscripts Direct provides medication management solutions for physicians. TouchWorks provides software that automates the most common physician activities. Physicians Interactive provides interactive educational opportunities for the physician. We believe that TouchWorks and Physicians Interactive represent our largest potential for growth.

In July 2001, we announced and began implementation of a restructuring plan to realign our organization; prioritize our initiatives around those high-growth areas of our business; focus on profitability; reduce operating expenses and improve efficiencies in light of the aforementioned acquisitions; and the commitment to focus sales and service efforts on larger physician practices, academic medical centers, and integrated delivery networks. The restructuring plan included workforce and overhead reductions, and the termination of certain strategic agreements and unprofitable customer contracts. As a result of the restructuring plan, we recorded restructuring and other charges of \$4,370 and

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\$4,266, respectively, during the third quarter of 2001. In addition, certain events and changes in circumstances caused us to conduct a review of the carrying value of our goodwill and purchased intangible assets. These events included the restructuring plan, the business climate, which generated significant valuation declines of enterprises in our industry, and the failure of certain assets to generate the cash flows that were projected at the time of acquisition. As a result of this review, we recorded an asset impairment charge of \$354,984 during 2001.

We currently organize our business around the three aforementioned segments: prepackaged medications; software and related services; and information services. The prepackaged medications segment derives its revenue from the repackaging, sale, and distribution of medications and medical supplies. The software and related services segment derives its revenue from the sale and installation of software that provides point-of-care decision support solutions and the resale of related hardware. The information services segment primarily derives its revenue from the sale of interactive physician education sessions.

The composition of our revenue by segment is as follows:

	Quarter Ended							
	2002				2001			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
	(Unaudited)							
Prepackaged medications	\$ 12,479	\$ 12,480	\$ 12,799	\$ 11,540	\$ 12,563	\$ 12,719	\$ 11,613	\$ 12,777
Software and related services	4,439	5,018	4,819	5,645	3,322	5,379	3,937	4,455
Information services	1,855	2,596	2,388	2,744	714	1,075	904	1,459
Total revenue	\$ 18,773	\$ 20,094	\$ 20,006	\$ 19,929	\$ 16,599	\$ 19,173	\$ 16,454	\$ 18,691

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

bonuses and benefits of our program management and program development personnel, costs to recruit physicians and other program management expenses.

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

### *Discontinued Operations*

The operating results of our pharmacy benefit management business, which we sold in March 1999, have been segregated from continuing operations and reported as a separate line item on the Consolidated Statements of Operations under the caption "Income from discontinued operations." Additionally, the gain we recognized from the sale of this business has been reported as a separate line item under the caption "Gain from sale of discontinued operations." The gain of \$4,353 for the twelve months ended December 31, 2000 represents final payment of contingent consideration related to the sale. Income from discontinued operations for the twelve months ended December 31, 2000 totaled \$83. See Note 13 of Notes to Consolidated Financial Statements for a discussion of these operations.

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

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Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, collectibility of accounts receivable, inventories, long-lived assets, capitalized software, and realization of deferred tax assets. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

### *Revenue Recognition*

Revenue from software licensing arrangements where the service element is considered essential to the functionality of the other elements of the arrangement is accounted for under the provisions of American Institute of Certified Public Accountants' Statement of Position (SOP) 81-1, "Accounting for Performance of Construction-Type Contracts and Certain Production-Type Contracts." SOP 81-1 requires that management make estimates of the total value of the contract as well as the percentage of the contract that has been completed as of the end of each period. Changes in circumstances may cause management's estimates of the value of the contract or the effort required to complete the services to change. The changes may cause Allscripts to adjust downward the amount of revenue recognized or

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recognize less revenue than anticipated through the completion of the project. For a more complete description of our revenue recognition policy, please refer to Note 2 of the Notes to Consolidated Financial Statements.

### *Allowance for Doubtful Accounts Receivable*

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### *Inventories*

We adjust the value of our inventory downward for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

### *Fixed Assets*

We estimate the useful lives of our fixed asset purchases and depreciate the cost over that estimated life. If the actual useful life is shorter than our estimated useful life, the asset may be deemed to be impaired and, accordingly, a write-down of the value of the asset may be required.

### *Goodwill and Intangible Assets*

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

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

### *Software Capitalization*

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

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

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### Deferred Taxes

We record a valuation allowance to reduce deferred tax assets to the amount that we believe is more likely than not to be realized. As of December 31, 2002, we had a valuation allowance equal to the entire amount of net deferred tax assets. If we had a valuation allowance less than the total deferred tax asset and we were to determine that we would not be able to realize all or part of the deferred tax asset, an adjustment would be charged to income in the period the determination was made. Likewise, should we determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period the determination was made.

### Results of Operations

The following table shows, for the periods indicated, our results of operations expressed as a percentage of our revenue:

	Year Ended December 31,		
	2002	2001	2000
Revenue	100.0%	100.0%	100.0%
Cost of revenue	74.8	90.4	77.3
Restructuring and other charges		3.1	
Gross profit	25.2	6.5	22.7
Operating expenses:			
Selling, general and administrative expenses	46.2	81.7	78.5
Amortization of intangibles	0.7	77.7	43.8
Asset impairment charge		500.5	
Restructuring and other charges	0.7	9.1	
Write-off of acquired in-process research and development		4.2	25.0
Loss from operations	(22.4)	(666.7)	(124.6)
Interest income, net	2.9	6.7	14.0
Other income (expense), net	0.2	0.8	(1.8)
Loss from continuing operations before income taxes	(19.3)	(659.2)	(112.4)
Income tax benefit		68.5	
Loss from continuing operations	(19.3)	(590.7)	(112.4)
Income from discontinued operations			0.2
Gain from sale of discontinued operations			7.9
Net loss	(19.3)%	(590.7)%	(104.3)%

**Year Ended December 31, 2002 Compared to Year Ended December 31, 2001**

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### *Prepackaged Medications*

Prepackaged medications revenue decreased by 0.8%, or \$374 from \$49,672 for the twelve months ended December 31, 2001 to \$49,298 in 2002. The decrease reflects a decrease in the volume of prepackaged medications sold, resulting primarily from the termination of unprofitable customer

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arrangements, substantially offset by an increase in the average selling prices of medications sold, due principally to general price inflation.

Gross profit for prepackaged medications for the twelve months ended December 31, 2002 increased by 13.7%, or \$1,114, from \$8,140 in 2001 to \$9,254 in 2002. Gross profit as a percentage of revenue increased to 18.8% in 2002 from 16.4% in 2001. The increase for both gross profit and gross profit percentage was due primarily to more favorable buying arrangements with suppliers and the termination of unprofitable customer arrangements.

Operating expenses for prepackaged medications for the twelve months ended December 31, 2002 decreased by 60.7%, or \$11,104, from \$18,287 in 2001 to \$7,183 in 2002. The decrease was due primarily to an intangible asset impairment charge of \$7,425 included in the 2001 results, lower intangible amortization expense in 2002 resulting from the aforementioned intangible asset impairment charge, and the elimination of the requirement to amortize goodwill pursuant to Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" starting in fiscal year 2002.

### *Software and Related Services*

Software and related service revenue for the twelve months ended December 31, 2002 increased by 16.5%, or \$2,828, from \$17,093 in 2001 to \$19,921 in 2002. The increase reflects an increase in sales of our TouchWorks products, partially offset by lower revenue derived from our software sales to smaller physician practices as a result of a decision we made in 2001 to focus sales and service efforts on larger physician practices, and by our exit from unprofitable customer arrangements.

Gross profit for software and related services increased by \$10,436, from a loss of \$5,321 in 2001 to profit of \$5,115 in 2002. Fiscal 2001 results included a charge of \$2,201 related to the exit of unprofitable customer relationships. The remainder of the increase was due primarily to lower amortization expense of acquired software and lower depreciation expense due to the decision to exit unprofitable customer contracts, and higher revenue in 2002. Gross profit as a percentage of revenue increased from (31.1)% in 2001 to 25.7% in 2002. The increase was due to the aforementioned 2001 charge and lower amortization expense in 2002, along with higher revenue recognized in 2002, while cost of implementation, training, and support remained essentially the same from 2001 to 2002.

Operating expenses for software and related services for the twelve months ended December 31, 2002 decreased by 94.3%, or \$428,344, from \$454,273 in 2001 to \$25,929 in 2002. The decrease was due primarily to a 2001 intangible asset impairment charge of \$347,559. In addition, intangible amortization expense was lower in 2002 resulting from the aforementioned intangible asset impairment charge taken during 2001 and the elimination of the requirement to amortize goodwill pursuant to SFAS No. 142. Operating expenses were also lower as a result of workforce reductions that were aimed at improving efficiencies in light of acquisitions made during 2001 and 2000, the decision to focus sales and service efforts on larger physician practices, and the subsidization of marketing expenses by our strategic partners. Also, during 2002, we capitalized \$2,697 of software development costs compared to \$52 in 2001 pursuant to SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." During 2001, we also recorded a write-off of acquired in-process research and development of \$3,000 related to our acquisition of Channelhealth, Inc.

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### *Information Services*

Information services revenue increased by 130.8%, or \$5,431, from \$4,152 in 2001 to \$9,583 in 2002. The increase in information services revenue reflects an increase in the number of interactive physician education programs sold and completed by Physicians Interactive.

Gross profit for information services for the twelve months ended December 31, 2002 increased 203.3%, or \$3,688, from \$1,814 in 2001 to \$5,502 in 2002. Gross profit as a percentage of revenue increased to 57.4% in 2002 from 43.7% in 2001. The increase for both gross profit and

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gross profit percentage was due to a higher number of physician education sessions completed and increased efficiencies in our recruiting and program development processes.

Operating expenses for information services for the twelve months ended December 31, 2002 decreased by 8.7%, or \$422, from \$4,862 in 2001 to \$4,440 in 2002. The decrease was due primarily to lower intangible amortization expense as the related intangible asset was fully amortized during 2001.

### *Interest Income and Income Taxes*

Interest income for the twelve months ended December 31, 2002 was \$2,406 as compared to \$5,055 for 2001. The decrease was related to a lower average cash and marketable securities balance and a decrease in the average interest rates earned on our investments during 2002.

We recorded a benefit for income taxes during the twelve months ended December 31, 2001 of \$48,544 from the reversal of deferred tax liabilities related to the amortization and impairment write-down of non-goodwill intangible assets. No other provision or tax benefit for income taxes was recorded in any period presented because we currently anticipate that annual income taxes payable will be minimal or zero, and we have provided a valuation allowance for our net deferred tax assets.

### **Year Ended December 31, 2001 Compared to Year Ended December 31, 2000**

#### *Prepackaged Medications*

Prepackaged medications revenue increased by 19.5%, or \$8,105, from \$41,567 for the twelve months ended December 31, 2000 to \$49,672 in 2001. The increase reflects an increase in the average selling price, as well as an increase in the volume of prepackaged medications sold due to new customers obtained through internal business generation and acquisition.

Gross profit for prepackaged medications for the twelve months ended December 31, 2001 decreased by 5.2%, or \$444, from \$8,584 in 2000 to \$8,140 in 2001. Gross profit as a percentage of revenue decreased to 16.4% in 2001 from 20.7% in 2000. The decrease for both gross profit and gross profit percentage was due to higher cost per unit sold due to less profitable customer arrangements.

Operating expenses for prepackaged medications for the twelve months ended December 31, 2001 increased by 100.1%, or \$9,147, from \$9,140 in 2000 to \$18,287 in 2001. The increase was due primarily to an intangible asset impairment charge of \$7,425 and a restructuring charge of \$1,183 included in the 2001 results.

#### *Software and Related Services*

Software and related service revenue for the twelve months ended December 31, 2001 increased by 102.9%, or \$8,669, from \$8,424 in 2000 to \$17,093 in 2001. The increase reflects sales of our TouchWorks product due primarily to our Channelhealth acquisition in 2001, partially offset by lower

revenue derived from our software sales to smaller physician practices as a result of a decision we made in 2001 to focus sales and service efforts on larger physician practices, and by our exit from unprofitable customer arrangements. The increase in 2001 was partially offset by \$1,500 for services provided to IMS Health Incorporated in 2000.

Gross profit for software and related services decreased by \$7,006, from \$1,685 in 2000 to a loss of \$5,321 in 2001. Gross profit as a percentage of revenue decreased from 20.0% in 2000 to (31.1)% in 2001. We recorded a charge of \$2,201 related to our exit from unprofitable customer relationships during 2001. The remainder of the decrease in both gross profit and gross profit percentage was due to higher amortization expense of acquired software and higher costs of implementation, training, and support, partially offset by higher revenue in 2001.

Operating expenses for software and related services for the twelve months ended December 31, 2001 increased by 577.7%, or \$387,237, from \$67,036 in 2000 to \$454,273 in 2001. The increase was due primarily to an intangible asset impairment charge of \$347,559 being taken in the third quarter of 2001. In addition, intangible amortization expense was higher in 2001 resulting primarily from the acquisition of Channelhealth. Operating expenses were also higher as a result of additional sales, development, and support staff acquired in the Channelhealth acquisition. During 2001, we also recorded a write-off of acquired in-process research and development of \$3,000 related to the Channelhealth acquisition, while in 2000, we had a write-off of acquired in-process research and development of \$13,729 related to the Masterchart and

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Medifor acquisitions.

### *Information Services*

Information services revenue decreased by 16.8%, or \$840, from \$4,992 in 2000 to \$4,152 in 2001. The decrease in information services revenue reflects the completion of several large programs during 2000.

Gross profit for information services for the twelve months ended December 31, 2001 decreased 17.4%, or \$382, from \$2,196 in 2000 to \$1,814 in 2001. The decrease was due to a smaller number of physician education sessions being completed during 2001 as compared to 2000. Gross profit as a percentage of revenue decreased slightly to 43.7% in 2001 from 44.0% in 2000.

Operating expenses for information services for the twelve months ended December 31, 2001 increased by 1.3%, or \$64, from \$4,798 in 2000 to \$4,862 in 2001.

### *Interest Income and Income Taxes*

Interest income for the twelve months ended December 31, 2001 was \$5,055 as compared to \$7,877 for 2000. The decrease was related to a lower average cash and marketable securities balance and a decrease in the average interest rates earned on our investments during 2001.

We recorded a benefit for income taxes during the twelve months ended December 31, 2001 of \$48,544 from the reversal of deferred tax liabilities related to the amortization and impairment write-down of non-goodwill intangible assets.

### **Selected Quarterly Operating Results**

The following table shows our quarterly unaudited consolidated financial information for the eight quarters ended December 31, 2002. We have prepared this information on the same basis as the annual information presented in other sections of this report. In management's opinion, this information

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reflects all adjustments, all of which are of a normal recurring nature, that are necessary for a fair presentation of the results for these periods. You should not rely on the operating results for any quarter to predict the results for any subsequent period or for the entire fiscal year. You should be aware of possible variances in our future quarterly results. See "Risk Factors Risks Related to Our Stock Our quarterly operating results may vary."

	Quarter Ended							
	2002				2001			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
	(unaudited)							
<b>Statements of Operations Data:</b>								
Revenue	\$ 18,773	\$ 20,094	\$ 20,006	\$ 19,929	\$ 16,599	\$ 19,173	\$ 16,454	\$ 18,691
Cost of revenue	14,951	15,124	14,770	14,086	15,588	16,868	16,391	15,236
Restructuring and other charges							2,201	
Gross profit	3,822	4,970	5,236	5,843	1,011	2,305	(2,138)	3,455
Operating expenses:								
Selling, general and administrative expenses	10,425	9,577	8,314	8,096	14,907	15,176	14,873	12,952
Amortization of intangibles	138	134	135	133	17,788	18,628	18,478	201
Asset impairment charge							354,984	
Restructuring and other charges			600				6,435	

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Quarter Ended

	Quarter Ended							
Write-off of acquired in-process research and development	3,000							
Loss from operations	(6,741)	(4,741)	(3,813)	(2,386)	(34,684)	(31,499)	(396,908)	(9,698)
Interest income, net	716	684	552	299	1,649	1,267	1,032	824
Other income (expense), net	1	95	62	39	135	255	7	144
Loss before taxes	(6,024)	(3,962)	(3,199)	(2,048)	(32,900)	(29,977)	(395,869)	(8,730)
Income tax benefit					2,099	2,249	44,012	184
Net loss	\$ (6,024)	\$ (3,962)	\$ (3,199)	\$ (2,048)	\$ (30,801)	\$ (27,728)	\$ (351,857)	\$ (8,546)
Net loss per share-basic and diluted	\$ (0.16)	\$ (0.10)	\$ (0.08)	\$ (0.05)	\$ (0.83)	\$ (0.73)	\$ (9.26)	\$ (0.22)

Our quarterly gross margins improved during 2001 and 2002 due primarily to a shift in the mix of our revenue toward the higher margin software and related services revenue and information services revenue from prepackaged medications revenue. Selling, general and administrative expenses decreased from 2001 to 2002 due primarily to workforce reductions that began in the third quarter of 2001, as well as a larger amount of capitalized software development costs in 2002. Intangible amortization expense decreased in the fourth quarter of 2001 due to the write-off of most of the intangible asset balance taken as the asset impairment charge during the third quarter of 2001. The restructuring and other charges taken in the third quarter of 2001 were primarily the result of the aforementioned workforce reductions. Net interest income decreased during 2001 and 2002 due primarily to lower average cash balances and lower interest rates.

#### Liquidity and Capital Resources

In 2000, we completed a public offering of 1,452 shares of our common stock, at an offering price of \$73.00 per share. The public offering resulted in net proceeds of \$99,766. Our operations for the past three fiscal years have been funded by the proceeds of the public offering and cash that was already on hand.

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At December 31, 2002, our principal sources of liquidity consisted of \$17,247 of cash and cash equivalents and \$48,039 of marketable securities for a total of \$65,286 in cash, cash equivalents and marketable securities. At December 31, 2002, we had working capital of \$44,726 and an accumulated deficit of \$553,539.

Net cash used in operating activities was \$10,770 for the twelve months ended December 31, 2002. Cash used in operating activities resulted primarily from a loss from operations of \$15,233, partially offset by depreciation and amortization of \$5,558. Accounts receivable increased by \$5,043 in the twelve months ended December 31, 2002, primarily due to growth in revenue and a slight increase in our average days sales outstanding. Inventories decreased by \$2,450 during the twelve months ended December 31, 2002, due to the sale of certain medications that we previously purchased in advance where shortages were expected and the reduction of technology inventory as a result of a change in the amount of inventory required by the software and related services businesses. Accrued restructuring and other charges decreased by \$1,807 during 2002 primarily due to cash payments made for employee severance arrangements. Deferred revenue increased \$2,665 during 2002 due to a higher dollar amount of contracts in backlog. All other operating activities produced \$640 in positive cash flow during 2002.

Net cash used in investing activities was \$7,893 for the twelve months ended December 31, 2002. Cash used in investing activities resulted primarily from net purchases of marketable securities of \$3,668. In addition, we capitalized software development costs of \$2,697 during 2002. Also, net capital expenditures were \$1,653 for the twelve months ended December 31, 2002 as a result of capital outlays to support the future growth of our business. Currently, we have no material commitments for capital expenditures, although we anticipate ongoing capital expenditures in the range of \$500 to \$750 per quarter in the ordinary course of business. During 2002, we also received \$125 to satisfy a guarantee pursuant to the Channelhealth acquisition agreement.

Net cash provided by financing activities was \$1,786 for the twelve months ended December 31, 2002, primarily as a result of the sale of shares of our common stock to a strategic partner in the first quarter of 2002 amounting to \$1,982. During 2002, we also received \$26 from the exercise of common stock options and warrants. Payments of capital lease obligations were \$222 for the twelve months ended December 31,

2002.

At December 31, 2002, we had operating loss carryforwards available for federal income tax reporting purposes of approximately \$145,873. The operating loss carryforwards expire from 2003 to 2021. Our ability to use these operating loss carryforwards to offset future taxable income depends on a variety of factors, including possible limitation under Internal Revenue Code Section 382. Section 382 imposes an annual limitation on the future utilization of operating loss carryforwards due to changes in ownership resulting from the issuance of common shares, stock options, warrants and preferred shares.

The following table summarizes our contractual obligations at December 31, 2002, and the effect such obligations are expected to have on our liquidity and cash in future periods:

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 to 3 Years</u>	<u>3 to 5 Years</u>	<u>Beyond 5 Years</u>
<b>Contractual obligations:</b>					
Non-cancelable capital leases	\$ 202	\$ 202	\$	\$	\$
Non-cancelable operating leases	5,861	963	1,924	1,659	1,315
Marketing programs	350	350			
<b>Total contractual obligations</b>	<b>\$ 6,413</b>	<b>\$ 1,515</b>	<b>\$ 1,924</b>	<b>\$ 1,659</b>	<b>\$ 1,315</b>

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We believe that our existing cash, cash equivalents and marketable securities will be sufficient to meet the anticipated cash needs of our current business for at least the next twelve months. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. We will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services and technologies, which might impact our liquidity requirements or cause us to issue additional equity or debt securities. No such transactions are contemplated at this time. There can be no assurance that financing will be available in the amounts or on terms acceptable to us, if at all.

#### Recent Accounting Pronouncements

In June 2001, Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" was issued. This statement requires that the fair value of a liability for obligations, required by law, associated with the retirement of tangible long-lived assets be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as a part of the carrying amount of the long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. We do not expect that the adoption of this statement will have a material impact on our consolidated financial position or results of operations.

In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" was issued. This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure requirements to require more prominent disclosures in both the annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. This statement is effective for fiscal years beginning after December 15, 2002. Certain of the disclosure modifications are required for fiscal years ended after December 15, 2002 and are included in the Notes to the Consolidated Financial Statements. We are currently evaluating the impact of this pronouncement, but do not expect that the adoption of this statement would have a material impact on our consolidated financial position or results of operations.

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#### Risk Factors

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

**If physicians do not accept our products and services, our growth will be impaired.**

Our business model depends on our ability to sell our TouchWorks and Physicians Interactive products and services to physicians and other healthcare providers and to generate usage by a large number of physicians. We have not achieved this goal with previous or currently available versions of our TouchWorks and Physicians Interactive products and services. Physician acceptance of our products and services will require physicians to adopt different behavior patterns and new methods of conducting business and exchanging information. We cannot assure you that physicians will integrate our products and services into their office work flow or that participants in the pharmaceutical 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 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 and other healthcare participants or to position our services as a preferred method for pharmaceutical healthcare delivery and information management, our prospects for growth will be diminished.

**We are currently experiencing losses and we may not become profitable in the future.**

We are currently experiencing losses and cannot assure you that we will become profitable in the foreseeable future, if ever. For the year ended December 31, 2002, we had a net loss of \$15,233. We cannot be certain that we will achieve profitability, and even if we do achieve profitability, we may be unable to sustain or increase our profitability in the future.

**Because our business model is unproven, our operating history is not indicative of our future performance, and our business is difficult to evaluate.**

Because we have not yet successfully implemented our business model, which changed substantially in connection with our acquisition of Channelhealth, we do not have an operating history upon which you can evaluate our prospects. In attempting to implement our business model, we significantly changed our business operations, sales and implementation practices, customer service and support operations and management focus. We are also facing new risks and challenges, including a lack of meaningful historical financial data upon which to plan future budgets, the need to develop strategic relationships and other risks described below.

**Our business will be harmed if we cannot maintain the strategic alliance agreement and the cross license agreement with IDX.**

In connection with the Channelhealth acquisition, we entered into a 10-year strategic alliance agreement with IDX pursuant to which Allscripts and IDX agreed to coordinate product development

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and align our respective marketing processes. Under this agreement, IDX granted us the exclusive right to market, sell, license and distribute ambulatory point-of-care and clinical application products to IDX customers. This agreement does not, however, limit IDX's continued development and distribution of its own "LastWord (n/k/a CareCast)" or radiology products and services. Our business strategy includes targeting current and prospective IDX customers and their affiliates. If we fail to successfully implement that business strategy, we may not be able to achieve projected results or support the price paid for Channelhealth. If the strategic alliance agreement is terminated, we would lose access to an important customer base. After the expiration or termination of the strategic alliance agreement, we may not be able to align with another company to market and distribute our products on as favorable a basis as that represented by the IDX strategic alliance. This would harm our growth and revenue. In addition, prior to the termination of this agreement, we cannot allow certain specified IDX direct competitors to market, distribute or sell our services, even if that agreement would benefit our business.

Upon completion of the Channelhealth acquisition, Channelhealth entered into an amended and restated cross license and software maintenance agreement with IDX pursuant to which Channelhealth granted IDX a license to use, market and sublicense its products combined with IDX products, and IDX granted Channelhealth a license to use, market and sublicense IDX software for use with Channelhealth products. If this agreement is terminated, Channelhealth will not have access to certain IDX software, which would harm our ability to integrate our services with IDX systems and provide real-time data synchronization. This would make our systems less desirable to IDX customers and would harm our business.

**Our growth and revenues could suffer if we are unable to enter into and maintain relationships with IDX customers.**

We seek to increase our subscriber base through targeting provider organizations that use IDX practice management systems or other IDX services, and affiliates of these organizations. Our services use the Web FrameWork technology, which we license from IDX, and which enables our software applications and services to be tightly integrated with IDX practice management systems and provide real-time synchronization of

data. If our relationship with IDX terminates, our services might not be as attractive to IDX customers and we may not have access to this potential customer base. In such an event, IDX might enter into arrangements that would allow our competitors to utilize IDX technology and IDX could compete against us. If any of these situations were to occur, our expected revenues may be lower, our business may be harmed and our stock price may fall.

**If we are unable to successfully introduce new products, our business prospects will be impaired.**

The successful implementation of our business model depends on our ability to introduce new products and to introduce these new products on schedule. We cannot assure you that we will be able to introduce new products or our products currently under development on schedule, or at all. In addition, early releases of software often contain errors or defects. We cannot assure you that, despite our extensive testing, errors will not be found in our new product releases and services before or after commercial release, which would result in product redevelopment costs and loss of, or delay in, market acceptance. A failure by us to introduce planned products or other new products or to introduce these products on schedule could have a material adverse effect on our business prospects.

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**Our business will not be successful unless we establish and maintain strategic relationships.**

To be successful, we must establish and maintain strategic relationships with leaders in a number of healthcare and Internet industry segments. This is critical to our success because we believe that these relationships will enable us to:

extend the reach of our products and services to a larger number of physicians and to other participants in the healthcare industry;

develop and deploy new products;

further enhance the Allscripts brand; and

generate additional revenue.

Entering into strategic relationships is complicated because some of our current and future strategic partners may decide to compete with us in some or all of our markets. In addition, we may not be able to establish relationships with key participants in the healthcare industry if we have relationships with their competitors. Moreover, many potential strategic partners have resisted, and may continue to resist, working with us until our products and services have achieved widespread market acceptance.

Once we have established strategic relationships, we will depend on our partners' ability to generate increased acceptance and use of our products and services. To date, we have established only a limited number of strategic relationships, and many of these relationships are in the early stages of development and may not achieve the objectives that we seek.

We have limited experience in establishing and maintaining strategic relationships with healthcare and Internet industry participants. 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 will suffer.

**If potential customers take a long time to evaluate the purchase of our products and services, we could incur additional selling expenses and require additional working capital.**

The length of the sales cycle for our current TouchWorks product 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 marketing efforts with respect to large healthcare organizations generally involve a lengthy sales cycle due to these organizations' complex decision-making processes. If potential customers take longer than we expect to decide whether to purchase our solutions, our selling expenses could increase, and we may need to raise additional capital sooner than we would otherwise need to.

**If we are unable to maintain existing relationships and create new relationships with managed care payers, our prospects for growth may suffer.**

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

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physicians decline to do so in the future, utilization of our products and, therefore, our growth will be impaired.

**If we cannot keep pace with advances in technology, our business could be harmed.**

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.

**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. An unexpectedly large increase in the volume or pace of traffic on our web site or the number of orders placed by customers may require us to expand and further upgrade our technology. We may not be able to project the rate or timing of increases in the use of our web site accurately or 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 because we may incur unexpected expenses and be unable to meet our customers' requirements.

**If we lose the services of our key personnel, we may be unable to replace them, and our business could be negatively affected.**

Our success depends in large part on the continued service 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 negatively affect our business, financial condition and results of operations.

**If we are unable to implement our acquisition strategy successfully, our ability to expand our product and service offerings and our customer base may be limited.**

We regularly evaluate acquisition opportunities. Acquisitions involve numerous risks, including difficulties in the assimilation of the operations, services, products and personnel of the acquired

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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 key employees of the acquired company and our inability to maintain the goodwill of the acquired businesses. 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 implementation of this 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.

Future acquisitions may result in potentially dilutive issuances of equity securities, the incurrence of additional debt, the assumption of known and unknown liabilities, the write off of software development costs and the amortization of expenses related to goodwill and other intangible assets, all of which could have a material adverse effect on our business, financial condition, operating results and prospects. We have taken, and, if an impairment occurs, could take, charges against earnings in connection with acquisitions. The costs and expenses incurred may exceed the estimates upon which we based these charges.

**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, including TouchWorks and physician education products. We protect our proprietary rights through a combination of trademark, trade secret and copyright law, confidentiality agreements and technical measures. 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 technology. Misappropriation of our intellectual property would have a material 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 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 the functionality of our applications overlaps with competitive products. While we do not believe that we have infringed or are infringing on any valid 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.

**Factors beyond our control could cause interruptions in our operations, which would adversely affect our reputation in the marketplace and our 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 service providers. Our operations are vulnerable to interruption by damage from a variety of sources, many of which are not within our control, including:

- power loss and telecommunications failures;
- software and hardware errors, failures or crashes;
- computer viruses and similar disruptive problems; and
- 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 results of operations.

**We may be liable for use of data we provide.**

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We provide data for use by healthcare providers in treating patients. Third-party contractors provide us with most of this data. Although no claims have been brought against us alleging injuries related to the use of our data, claims may be made in the future. 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 materially harm our financial condition.

### **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 conducting e-commerce and engaging in sensitive communications over the Internet. Our strategy relies on the use of 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. We may have 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. In addition, we could incur additional expenses to comply with the HIPAA Transaction Standards, Security Standards and Privacy Standards, all discussed above, and to ensure that our products and services are capable of being utilized by those of our customers that are Covered Entities in a manner that is compliant.

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### **If we are unable to obtain additional financing for our future needs, our growth prospects and our ability to respond to competitive pressures may be impaired.**

We cannot be certain that additional financing will be available 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 results of operations could be adversely affected.**

We depend on independent content and service providers for many of the benefits we provide through our TouchWorks system 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. Any problems with our providers that result in interruptions of our services or a failure of our services to function as desired could damage our reputation in the marketplace and have a material adverse effect on our 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 expect to rely on independent content providers for the majority of the clinical, educational and other healthcare information that we plan to provide. In addition, we will 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. Any failure by these parties to develop and maintain high quality, attractive content could impair the value of our brand and our results of operations.

### **If third-party payers force us to reduce our prices, our results of operations could suffer.**

We expect to derive a significant portion of our revenue from sales, including sales over the Internet, 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 and any governmental action requiring or allowing pharmaceutical reimbursement under Medicare. If our pricing of prepackaged medications experiences significant downward pressure, our business will be less profitable.

### **If we incur costs exceeding our insurance coverage in lawsuits pending against us or that are brought against us in the future, it could materially adversely affect our financial condition.**

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, and if our insurance coverage were inadequate to satisfy these

liabilities, it could have a material adverse effect on our financial condition. See "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. 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.

**Because of anti-takeover provisions under Delaware law and in our certificate of incorporation and by-laws, takeovers may be more difficult, possibly preventing you from obtaining optimal share price.**

Certain provisions of Delaware law and our certificate of incorporation and bylaws could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. For example, our certificate of incorporation and by-laws provide for a classified Board of Directors and allow us to issue preferred stock with rights senior to those of the common stock without any further vote or action by the stockholders. In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which could have the effect of delaying or preventing a change in control of us.

**Risks Related to Our Industry**

**If the healthcare environment becomes more restrictive, or we do not comply with healthcare regulations, our existing and future operations may be curtailed, and we could be subject to liability.**

As a participant in the healthcare industry, our operations and relationships are regulated by a number of federal, state and local governmental entities. Because our business relationships with physicians are unique, and the healthcare electronic commerce industry as a whole is relatively young, the application of many state and federal regulations to our business operations 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.

**Electronic Prescribing.** The use of our TouchWorks software by physicians to perform electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing is governed by state and federal law. The application of these laws to our business is uncertain because many existing laws and regulations, when enacted, did not anticipate methods of e-commerce now being developed. The laws of many jurisdictions neither specifically permit nor specifically prohibit electronic transmission of prescription orders. Future regulation of these areas may adversely affect us.

**Licensure.** As a repackager and distributor of drugs, we are subject to regulation by and licensure with the United States Food and Drug Administration, the United States Drug Enforcement Administration and various state agencies that regulate wholesalers or distributors. Among the regulations applicable to our repackaging operation are the FDA's "good manufacturing practice" regulations. Because the FDA's good manufacturing practice regulations were designed to govern the manufacture, rather than the repackaging, of drugs, we face legal uncertainty concerning the application of some aspects of these regulations and of the standards that the FDA will enforce. Both the FDA and the DEA have the right, at any time, to inspect our facilities and operations to determine if we are operating in compliance with the requirements for licensure and all applicable laws and regulations. In August of 1998, we received an FDA warning letter, like many other drug repackagers, alleging violations of FDA regulations, including the good manufacturing practice regulations. We subsequently implemented procedures intended to address many of the concerns raised by the FDA in that letter and believe that our compliance with FDA regulations meets or exceeds the standard in

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the drug repackaging industry. We were subsequently inspected in August 2001 and had no warning letter issued as a result of that inspection. We also believe that we possess all licenses required to operate our business. If, however, we do not maintain all necessary licenses, or the FDA decides to substantially modify the manner in which it has historically enforced its good manufacturing practice regulations against drug repackagers or the FDA or DEA finds any violations during one of their periodic inspections, we could be subject to liability, and our operations could be shut down.

**Physician Dispensing.** Physician dispensing of medications for profit is allowed in all states except Utah and is prohibited, subject to extremely limited exceptions, in Massachusetts, Montana and Texas. In addition, New Jersey and New York allow physician dispensing of medications for profit, but limit the number of days' supply of all medications, subject to limited exceptions, that a physician may dispense; several other states limit the number of days' supply of controlled substances that a physician may dispense. Other states may enact legislation or regulations prohibiting or restricting physician dispensing.

The American Medical Association, through certain of its constituent bodies, has historically taken inconsistent positions on physician dispensing, alternately discouraging and supporting it. While the AMA's Council on Ethical and Judicial Affairs in 1986 discouraged physicians from regularly dispensing prescription pharmaceuticals, in 1987 the AMA's House of Delegates adopted the following resolution: "Resolved, that the American Medical Association support the physician's right to dispense drugs and devices when it is in the best interest of the patient and consistent with the AMA's ethical guidelines." This position was reaffirmed by the AMA House of Delegates in January 1997. The AMA's ethical guidelines provide in relevant part that "physicians may dispense drugs within their office practices provided there is no resulting exploitation of patients." While two recent Reports of the Council on Ethical and Judicial Affairs oppose the in-office sale of health-related products by physicians, these reports specifically exclude the sale of prescription items from their scope, although they do refer to the Council's 1986 Report.

**Stark II.** Congress enacted significant prohibitions against physician self-referrals in the Omnibus Budget Reconciliation Act of 1993. This law, commonly referred to as "Stark II," applies to physician dispensing of outpatient prescription drugs that are reimbursable by Medicare or Medicaid. We believe that the physicians who use our TouchWorks system or dispense drugs distributed by us are aware of these requirements, since they are generally well known in the health care industry, but we do not monitor our customers' compliance and have no assurance that our customers are using our TouchWorks system or dispensing drugs in material compliance with Stark II, either pursuant to an in-office ancillary services exception or another applicable exception. While our physician customers currently do not, to any significant degree, dispense drugs that are reimbursable by Medicare or Medicaid, if they were to and if it were determined that the physicians who use our system or dispense pharmaceuticals purchased from us were not in compliance with Stark II, it could have a material adverse effect on our business, results of operations and prospects.

**Drug Distribution.** As a distributor of prescription drugs to physicians, we and our customers are also subject to the federal anti-kickback statute, which applies to Medicare, Medicaid and other state and federal programs. The statute prohibits the solicitation, offer, payment or receipt of remuneration in return for referrals or the purchase, or in return for recommending or arranging for the referral or purchase of goods, including drugs, covered by the programs. The

anti-kickback law provides a number of exceptions or "safe harbors" for particular types of transactions. We believe that our arrangements with our customers are in material compliance with the anti-kickback statute and relevant safe harbors. Many states have similar fraud and abuse laws, and we believe that we are in material compliance with those laws. If, however, it were determined that we were not in compliance with those laws, we could be subject to liability, and our operations could be curtailed.

**Claims Transmission.** As part of our services provided to physicians, our system will electronically transmit claims for prescription medications dispensed by a physician to many patients' managed care organizations and payers for immediate approval and reimbursement. Federal law provides that it is both a civil and a criminal violation for any person to submit a claim to any payer, including, for example, Medicare, Medicaid and all private health plans or managed care plans seeking payment for any services or products that have not been provided to the patient or overbilling for services or products provided. We have in place policies and procedures that we believe assure that all claims that are transmitted by our system are accurate and complete, provided that the information given to us by our customer is also accurate and complete. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent inaccurate claims from being submitted, we could be subject to liability. The HIPAA Transaction Standards and the HIPAA Security Standards will also

have a potentially significant effect on our Claims Transmission services, since those services must be structured and provided in a way that supports our customers' HIPAA compliance obligations.

**Patient Information.** Existing federal and state laws and regulations regulate the disclosure of confidential medical information, including information regarding conditions like AIDS, substance abuse and mental illness. The Privacy Standards grant a number of rights to individuals as to their Protected Health Information and restrict the use and disclosure of Protected Health Information by "Covered Entities", such as our customers. In addition, those of our customers that are Covered Entities must have in place a written "Business Associate Agreement" with us, containing specified "satisfactory assurances" that we will safeguard Protected Health Information that it creates or accesses and fulfil other obligations to support the covered entity's own compliance obligations. We believe that the principal effects of HIPAA on us will be, first, to require that our services and systems be capable of being operated by our customers in a manner that is compliant with HIPAA and, second, to require us to enter into and comply with Business Associate Agreements with our customers. The business associate agreements impose new and additional obligations on us in our operations. The Privacy Rule and its interpretation are subject to change from time to time. In the event that the Privacy Rule is interpreted in a way that requires material change to the way in which we do business, it could have a material adverse effect on our business, results of operations and prospects. As part of the operation of our business, our customers do provide to us patient-identifiable medical information related to the prescription drugs that they prescribe and other aspects of patient treatment. We have policies and procedures that we believe assure compliance with all federal and state confidentiality requirements for handling of Protected Health Information that we receive and with our obligations under Business Associate Agreements. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent the unauthorized disclosure of confidential medical information, we could be subject to liability, fines and lawsuits, termination of our customer contracts, or our operations could be shut down.

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The Bush Administration has announced that it intends to propose broad Medicare reform legislation that would make available to Medicare recipients a subsidized prescription drug benefit. While no federal price controls are included in the current version of the proposed legislation, any legislation that reduces physician incentives to dispense medications in their offices could adversely affect physician acceptance of our products. We cannot predict whether or when future health care reform initiatives at the federal or state level or other initiatives affecting our business will be proposed, enacted or implemented or what impact those initiatives may have on our business, financial condition or results of operations.

**If the rapidly evolving electronic healthcare information market fails to develop as quickly as expected, our business prospects will be impaired.**

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

**Consolidation in the healthcare industry could adversely affect our business.**

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

#### **Risks Related to Our Stock**

**The public market for our common stock has been and may continue to be volatile.**

The market price of our common stock is highly volatile and could fluctuate significantly in response to various factors, including:

actual or anticipated variations in our quarterly operating results;

announcements of technological innovations or new services or products by us or our competitors;

changes in financial estimates by securities analysts;

conditions and trends in the electronic healthcare information, Internet, e-commerce and pharmaceutical markets; and

general market conditions and other factors.

In addition, the stock markets, especially the Nasdaq National Market, have experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many

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technology companies, and Internet-related companies in particular. These fluctuations have often been unrelated or disproportionate to operating performance. These broad market factors may materially affect the trading price of our common stock. General economic, political and market conditions like recessions and interest rate fluctuations may also have an adverse effect on the market price of our common stock. Volatility in the market price for our common stock may result in the filing of securities class action litigation.

**Our quarterly operating results may vary.**

Our quarterly operating results have varied in the past, and we expect that our quarterly operating results will continue to vary in future periods depending on a number of factors, including seasonal variances in demand for our products and services, the sales, service and implementation cycles for our TouchWorks system and physician education products and services and other factors described in this "Risk Factors" section of this report. For example, all other factors aside, sales of our prepackaged medications have historically been highest in the fall and winter months. We base our expense levels in part upon our expectations concerning future revenue, and these expense levels are relatively fixed in the short term. If we have lower revenue, we may not be able to reduce our spending in the short term in response. Any shortfall in revenue would have a direct impact on our results of operations. For these and other reasons, we may not meet the earnings estimates of securities analysts or investors, and our stock price could suffer.

**We may have substantial sales of our common stock that could cause our stock price to fall.**

Our common stock began trading on the Nasdaq National Market on July 23, 1999; however, there have been a limited number of shares trading in the public market. A substantial number of our shares have and will continue to become eligible for public sale, and sales of a substantial number of shares of our common stock could cause our stock price to fall.

**Because our executive officers and directors have substantial control of our voting stock, takeovers not supported by them will be more difficult, possibly preventing you from obtaining optimal share price.**

The control of a significant amount of our stock by insiders could adversely affect the market price of our common stock. Our executive officers and directors beneficially own or control 14,813,231 shares or 37.1% of the outstanding common stock as of February 28, 2003. If our executive officers and directors choose to act or vote together, they will have the power to influence significantly all matters requiring the approval of our stockholders, including the election of directors and the approval of significant corporate transactions. Without the consent of these stockholders, we could be prevented from entering into transactions that could be beneficial to us.

**Safe Harbor for Forward-Looking Statements**

This report and statements we make or our representatives make contain forward-looking statements that involve risks and uncertainties, including those discussed above and elsewhere in this report. We develop forward-looking statements by combining currently available information with our beliefs and assumptions. These statements often contain words like believe, expect, anticipate, intend, contemplate, seek, plan, estimate or similar expressions. Forward-looking statements do not guarantee future performance. Recognize these statements for what they are and do not rely upon them as facts.

Forward-looking statements involve risks, uncertainties and assumptions, including, but not limited to, those discussed above and elsewhere in this report. We make these statements under the protection afforded them by 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.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk (Dollars in thousands)

As of December 31, 2002, we did not own any derivative financial instruments, but we were exposed to market risks, primarily changes in U.S. interest rates. As of December 31, 2002, we had cash, cash equivalents and marketable securities in financial instruments of \$65,286. Maturities range from less than one month to approximately 21 years. Declines in interest rates over time will reduce our interest income from our investments. Based upon our balance of cash, cash equivalents and marketable securities as of December 31, 2002, a decrease in interest rates of 1.0% would cause a corresponding decrease in our annual interest income by approximately \$653.

### PART III

#### Item 10. Directors and Executive Officers of the Registrant

Our directors and executive officers are:

Name	Age	Position
Glen E. Tullman	43	Chairman of the Board, Chief Executive Officer and Director
Lee A. Shapiro	47	President
William J. Davis	35	Chief Financial Officer
Joseph E. Carey	45	Chief Operating Officer
T. Scott Leisher	43	Executive Vice President, Sales and Marketing
John G. Cull	41	Senior Vice President, Finance, Secretary and Treasurer
Stanley A. Crane	53	Chief Technology Officer
Philip D. Green(1)(3)	52	Director
Bernard Goldstein(3)	72	Director
Michael J. Kluger(1)(2)	46	Director
M. Fazle Husain(1)(2)	38	Director
Richard E. Tarrant	60	Director
Edward M. Philip(2)(3)	37	Director

- (1) Member of Compensation Committee
- (2) Member of Audit Committee
- (3) Member of Nominating Committee

*Glen E. Tullman* became the Chairman of our Board in May 1999 and our Chief Executive Officer in August 1997 and was our President from December 2001 through April 2002. From October 1994 to July 1997, Mr. Tullman was Chief Executive Officer of Enterprise Systems, Inc., a publicly traded healthcare information services company providing resource management solutions to large integrated healthcare networks. From 1983 to 1994, Mr. Tullman was employed by CCC Information Services Group, Inc., a computer software company servicing the insurance industry, most recently as President and Chief Operating Officer.

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*Lee A. Shapiro* became our President in April 2002. From April 2000 to April 2002, Mr. Shapiro served as Executive Vice President of Allscripts and was responsible for strategic business development and related initiatives. Prior to joining Allscripts, from 1998 to 2000, Mr. Shapiro was the Chief Operating Officer of Douglas Elliman-Beitler, Chicago, Illinois. From 1980 until 1986, Mr. Shapiro practiced law with Barack, Ferrazzano, Kirschbaum & Perlman, Chicago and its predecessor. Mr. Shapiro served as the President of SES Properties, Inc., a closely held real estate company based in Carlsbad, California from 1986-1998. Concurrently, Mr. Shapiro formed City Financial Bancorp in 1986 and served as its Vice Chairman until its sale in 1992.

*William J. Davis* became our Chief Financial Officer in October 2002. Mr. Davis was the Chief Financial Officer of Lante Corporation from 2000 until he joined Allscripts, and was Controller of Lante from 1999 through 2000. From 1991 through 1999, Mr. Davis was a Senior Manager in the Technology Group of PricewaterhouseCoopers LLP.

*Joseph E. Carey* became our Chief Operating Officer in April 1999. From September 1998 to April 1999, he served as President and Chief Operating Officer of Shopping@Home, Inc. Prior to that time, he was Senior Vice President and General Manager of the Resource Management Group of HBO & Company, a healthcare software firm. Mr. Carey joined HBO in 1997 with HBO's acquisition of Enterprise Systems, Inc., where he held the role of President from 1993 until the acquisition.

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*T. Scott Leisher* became our Executive Vice President, Sales and Marketing, in October 2000. From April 2000 to October 2000, Mr. Leisher served as our Senior Vice President, Sales and Marketing. From 1998 to 2000, Mr. Leisher served as our Senior Vice President, Sales. Prior to joining Allscripts, Mr. Leisher was with CCC Information Services from 1986 to 1998 where he served in a number of management positions, completing his tenure there as a Senior Vice President in their Insurance Division.

*John G. Cull* became our Senior Vice President, Finance, Secretary and Treasurer in 1995. From 1991 to 1993, Mr. Cull was our assistant controller, and from 1993 to 1995 he was our controller. From 1986 to 1991, Mr. Cull was controller of Federated Foods, Inc., a food brokerage company. Prior to joining Federated Foods, Mr. Cull was employed by Arthur Andersen & Co.

*Stanley A. Crane* became our Chief Technology Officer in January 2000 and was our Vice President, Internet Services from April 1999 until that time. From September 1998 to April 1999, he was Chief Technology Officer for Shopping@Home, Inc. From January 1998 to September 1998, he was Chief Technology Officer for MaxMiles, Inc., an Internet travel services company. From August 1995 to January 1998, Mr. Crane was Chief Technology Officer for Enterprise Systems, Inc., where he led a development team through its successful migration from DOS-based applications to a system of Windows, object-oriented, client/server applications. Prior to this, Mr. Crane held a variety of roles with Lotus, Ashton-Tate and WordStar.

*Philip D. Green* was elected to our board in 1992. Mr. Green has been a partner with Akin, Gump, Strauss, Hauer & Feld, L.L.P. since June 2000. From 1989 until that time, Mr. Green was a partner with the Washington, D.C. based law firm of Green, Stewart, Farber & Anderson, P.C., of which Mr. Green was a founding partner. From 1978 through 1989, Mr. Green was a partner in the Washington, D.C. based law firm of Schwalb, Donnenfeld, Bray & Silbert, P.C. Mr. Green practices healthcare law and represents several major teaching hospitals. Mr. Green serves on the board of directors of I-trax, Inc.

*Bernard Goldstein* was elected to our board in 2001. From 1997 to 2002, Mr. Goldstein was a Managing Director of Broadview International, LLC, which he joined in 1979. He is a past President of the Information Technology Association of America, the industry trade association of the computer service industry, and past Chairman of the Information Technology Foundation. Mr. Goldstein was a director of Apple Computer Inc. until August 1997, and is currently a director of Sungard Data Systems, Inc., SPSS, Inc., and several privately held companies.

*Michael J. Kluger* was elected to our board in 1994. He is a founding partner of Liberty Partners, L.P., whose general partner is Liberty Capital Partners, Inc., a New York investment management firm, where he has served as a Managing Director since 1992. For five years prior thereto, Mr. Kluger was a Director and Senior Vice President of Merrill Lynch Interfunding Inc., a subsidiary of Merrill Lynch & Co., an investment banking and brokerage firm.

*M. Fazle Husain* was elected to our board in April 1998. Mr. Husain is a Managing Director of Morgan Stanley Dean Witter & Co., an investment banking firm, where he has been employed since 1991, and is a Managing Member of Morgan Stanley Venture Partners III, L.L.C., which is the General Partner of Morgan Stanley Venture Partners III, L.P., Morgan Stanley Venture Investors III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. Mr. Husain was also employed at Morgan Stanley Dean Witter from 1987 until 1989. Mr. Husain focuses primarily on investments in the healthcare and software industries. He serves on the boards of directors of Cross Country, Inc., The Medicines Company, HealthStream, Inc. and several private medical and software companies.

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*Richard E. Tarrant* became Vice Chairman of our board upon the consummation of the Channelhealth merger transaction in January 2001. Mr. Tarrant has been designated to be on our board by IDX Systems Corporation, a publicly traded company supplying information systems to healthcare

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organizations, pursuant to the terms of a Stock Rights and Restrictions Agreement entered into between Allscripts and IDX in connection with the Channelhealth merger transaction, which is described in detail under "Certain Relationships and Related Transactions." Mr. Tarrant co-founded IDX in 1969 and has served as Chairman of the Board since January 2003. He served as a director and as the Chief Executive Officer of IDX from the time he founded IDX until January 2003; he was also President of IDX from 1969 to February 1999. Mr. Tarrant also served as the Chairman of the board of directors of Channelhealth Incorporated from October 1999 until consummation of the Channelhealth merger transaction in January 2001. Mr. Tarrant has served as a Trustee of The University of Vermont and Saint Michael's College, as a member of the Board of Trustees for University Health Center (Vermont), an academic medical center, from July 1988 to December 1994, as Chairman of the Board of Trustees of University Health Center (Vermont) from 1992 to 1994 and as Chairman of Fletcher Allen Health Care, an integrated healthcare delivery system serving Vermont and northern New York State, from 1992 to 1994. Mr. Tarrant presently serves as a director of Fletcher Allen Health Care and is a member of the Vermont Business Roundtable.

*Edward M. Philip* was elected to our board in July 1999. Mr. Philip is Senior Vice President of Terra Lycos, S.A., a position he has held since October 2000. Prior to that, Mr. Philip had been Chief Operating Officer of Lycos, Inc. since December 1996, and Chief Financial Officer and Secretary of Lycos, Inc. since December 1995. From July 1991 to December 1995, Mr. Philip was employed by The Walt Disney Company, where he served in various finance positions, most recently as Vice President and Assistant Treasurer. Prior to joining The Walt Disney Company, Mr. Philip was an investment banker at Salomon Brothers Inc. Mr. Philip is a director of Terra Lycos S.A. and Hasbro, Inc.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers, directors and 10% stockholders to file reports of ownership and changes of ownership of their company's common stock with the Securities and Exchange Commission. Based on a review of copies of these reports provided to us and written representations from executive officers and directors, we believe that all filing requirements applicable to these individuals were met during 2002.

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## Item 11. Executive Compensation

### Executive Compensation

This table summarizes the compensation for the Chief Executive Officer and the other five most highly compensated executive officers of Allscripts.

#### Summary Compensation

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	
		Salary	Bonus	Awards	All Other Compensation(4)
Glen E. Tullman Chairman and Chief Executive Officer	2002	\$ 250,000	\$ 53,450	215,000	\$ 2,300
	2001	285,000	75,000	200,000	2,000
	2000	270,000	100,000	150,000	996

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				<u>Long-Term Compensation</u>		
Lee A. Shapiro President	2002	\$ 222,407	\$ 53,475	150,000	\$	2,450
	2001	225,000	65,000	150,000		2,000
	2000	166,298	80,000	270,500		263
Joseph E. Carey Chief Operating Officer	2002	\$ 225,000	\$ 53,475	150,000	\$	2,450
	2001	235,000	65,000	125,000		2,000
	2000	220,417	90,000	147,500		1,050
T. Scott Leisher Executive Vice President, Sales and Marketing	2002	\$ 212,035	\$ 53,475	150,000	\$	2,300
	2001	200,000	65,000	110,000		2,000
	2000	158,333	67,619(1)	45,000		5,810
Stanley A. Crane Chief Technology Officer	2002	\$ 190,000	\$ 33,000	45,000	\$	2,690
	2001	190,000	30,000	25,000		2,000
	2000	168,750	40,000	37,500		1,013
David B. Mullen(2) Former Chief Financial Officer	2002	\$ 235,000(3)		150,000	\$	2,633
	2001	285,000	\$ 70,000	125,000		2,000
	2000	270,000	100,000	150,000		1,050

- (1) Includes commissions of \$17,619.
- (2) Mr. Mullen resigned effective September 13, 2002.
- (3) Includes \$68,542 of severance pay in 2002.
- (4) For 2002, comprised of \$2,000 for each named executive officer in matching contributions under our 401(k) plan and the balance for life insurance premiums paid by us.

**Option Grants in 2002**

This table gives information relating to option grants during 2002 to the executive officers listed in the Summary Compensation Table. The options were granted under the Amended and Restated 1993 Stock Incentive Plan and vest equally over three years on the anniversaries of the grant. The potential realizable value is calculated based on the term of the option at its time of grant, 10 years. The calculation assumes that the fair market value on the date of grant appreciates at the indicated rate compounded annually for the entire term of the option and that the option is exercised at the exercise price and sold on the last day of its term at the appreciated price. Stock price appreciation of 5% and 10% is assumed pursuant to the rules of the Securities and Exchange Commission. The actual price

appreciation may be substantially greater than that assumed under these rules. We cannot assure you that the actual stock price will appreciate over the 10-year option term at the assumed levels or at any other defined level.

<u>Individual Grants</u>		Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term
Securities Underlying	Percent of Total Options Granted to Employees in	

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Name	Individual Grants					
	Options	2002	Exercise Price	Expiration	5%	
	Granted		Per Share	Date		10%
Glen E. Tullman	215,000	8.3%	\$ 3.15	1/16/12	\$ 425,919	\$ 1,079,362
Lee A. Shapiro	150,000	3.2%	\$ 3.15	1/16/12	\$ 297,153	\$ 753,043
Joseph E. Carey	150,000	3.2%	\$ 3.15	1/16/12	\$ 297,153	\$ 753,043
T. Scott Leisher	150,000	3.2%	\$ 3.15	1/16/12	\$ 297,153	\$ 753,043
Stanley A. Crane	35,000	1.3%	\$ 3.15	1/16/12	\$ 69,336	\$ 175,710
	10,000	0.4	2.00	8/5/12	12,578	31,875
David B. Mullen(1)	150,000	3.2%	\$ 3.15	1/16/12		

(1) All options were forfeited upon Mr. Mullen's resignation.

**Option Exercises in 2002 and 2002 Year-End Option Values**

This table provides information regarding the exercise of options during 2002 by the executive officers listed in the Summary Compensation Table. The value realized is calculated using the difference between the option exercise price and the price of Allscripts common stock on the date of exercise multiplied by the number of shares subject to the option. The value of unexercised in-the-money options at year end 2002 is calculated using the difference between the option exercise price and \$2.39 (the last reported market price of Allscripts common stock on the last trading day of the year) multiplied by the number of shares underlying the option. An option is in-the-money if the market value of the common stock subject to the option is greater than the exercise price.

Name	Shares Acquired on Exercise	Value Realized	Securities Underlying Unexercised Options at Year End 2002		Value of Unexercised In-the-Money Options at Year End 2002	
			Exercisable	Unexercisable	Exercisable	Unexercisable
			Glen E. Tullman			180,149
Lee A. Shapiro			75,251	300,249		
Joseph E. Carey			117,083	243,749		
T. Scott Leisher			73,606	237,082	\$ 78,784	
Stanley A. Crane			104,166	112,500		\$ 3,900
David B. Mullen(1)			137,702	5,144	\$ 320,846	\$ 11,986

(1) Gives effect to forfeiture by Mr. Mullen of options to purchase 150,000 shares in connection with his resignation.

**Employment Agreements**

We entered into employment agreements with Messrs. Tullman, Shapiro, Carey and Leisher effective July 8, 2002. Each agreement has an initial term that ends July 8, 2005 and renews for consecutive one-year terms unless either party gives 180 days' notice prior to the expiration of any term. Under the agreements, Mr. Tullman is to be paid an annual base salary of \$250,000 (subject to annual review and increase by the board of directors), and Messrs. Shapiro, Carey and Leisher are each to be paid an annual base salary of \$225,000 (subject in each case to annual review and increase by the board of directors). Messrs. Tullman, Carey and Leisher are each entitled to an annual bonus as

determined by the board of directors or the compensation committee in their sole discretion, but in no event will the bonus be less than \$75,000. Mr. Shapiro is entitled to a guaranteed annual bonus equal to at least the greater of 25% of Mr. Shapiro's then current annual base salary or \$75,000. If we terminate Messrs. Tullman, Shapiro, Carey or Leisher without Cause or if any of them terminates his employment for Constructive Discharge, as each of those terms is defined in the agreements, he will be entitled to two years' base salary as well as any salary

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that was accrued but not yet paid as of the termination date, the unpaid performance bonus, if any, for the calendar year preceding the termination date and any performance bonus for the calendar year in which the termination date occurs (as determined and payable had there been no termination), continuation of health benefits for a period of 24 months following the termination date, outplacement services of up to \$10,000 and acceleration of all stock option or other stock awards granted after the date of the agreements. Notwithstanding the above, if during the one-year period immediately following a Change in Control, as defined in the agreements, Messrs. Tullman, Shapiro, Carey or Leisher terminates his employment for any reason, he will be entitled, instead of the salary and bonus payments described in the previous sentence, to a payment in a lump sum equal to 2.99 times his then in effect base salary and 2.99 times the minimum performance bonus amount of \$75,000. In the event that any payment by us to Messrs. Tullman, Shapiro, Carey or Leisher would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, we have agreed to pay such executive an amount, net of taxes, equal to such excise tax amount. The agreements also provide that each of Messrs. Tullman, Shapiro, Carey or Leisher will not compete with us during the term of his employment and (other than in the case of a termination by us without Cause or a termination of such executive for Constructive Discharge) for one year thereafter.

We have entered into stock option agreements with Messrs. Tullman, Shapiro, Carey and Leisher (including options referred to in the previous paragraph) pursuant to which, in the event of a Change in Control, as defined in the stock option agreements and the employment agreements, vesting of the options will accelerate so that the unvested portion of the options will vest immediately. Under these option agreements, Messrs. Tullman, Shapiro, Carey and Leisher had unvested options as of March 31, 2003 as follows: Mr. Tullman, 287,227 shares; Mr. Shapiro, 218,999 shares; Mr. Carey, 168,749 shares; and Mr. Leisher, 163,749 shares.

In connection with Mr. Mullen's resignation as our Chief Financial Officer and a member of our board of directors, we entered into a separation agreement with Mr. Mullen effective as of September 13, 2002. Under the agreement, we agreed to pay Mr. Mullen severance pay at an annual rate of \$235,000 for a period of 20 months from his termination date, irrespective of any subsequent employment he may obtain. Mr. Mullen is also entitled to continue to participate in our medical, health and life insurance plans until the earlier of May 13, 2004 or the date he receives coverage and benefits under the plans of a subsequent employer. The agreement also provides that Mr. Mullen will not compete with us for one year after his termination.

### **Director Compensation**

Directors receive no cash compensation for their services as directors. We reimburse our directors for their travel expenses. Under our Amended and Restated 1993 Stock Incentive Plan, directors who are not Allscripts employees are eligible to receive stock option grants at the discretion of the board of directors or the compensation committee.

### **Compensation Committee Interlocks and Insider Participation**

The members of the compensation committee of our board of directors are Messrs. Green, Husain and Kluger. None of these persons has ever been an officer or employee of Allscripts or any of its subsidiaries. We refer you to the information under "Certain Relationships and Related Transactions" for a discussion of insider participation.

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## **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

### **Ownership of Allscripts Common Stock**

The following table shows how much Allscripts common stock was beneficially owned as of March 31, 2003 by:

our Chief Executive Officer and the five other most highly compensated executive officers based on compensation earned during 2002;

each director;

all directors and executive officers as a group; and

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each stockholder that we know to own beneficially more than 5% of Allscripts common stock based on information filed with the Securities and Exchange Commission.

Beneficial ownership is a technical term broadly defined by the Securities and Exchange Commission to mean more than ownership in the usual sense. In general, beneficial ownership includes any shares that the holder can vote or transfer and stock options and warrants that are exercisable currently or become exercisable within 60 days. These shares are considered to be outstanding for the purpose of calculating the percentage of outstanding Allscripts common stock owned by a particular stockholder, but are not considered to be outstanding for the purpose of calculating the percentage ownership of any other person. Percentage of ownership is based on 38,440,520 shares outstanding as of March 31, 2003. Except as otherwise noted, the stockholders named in this table have sole voting and dispositive power for all shares shown as beneficially owned by them.

	<b>Shares of Common Stock Beneficially Owned</b>	<b>Options and Warrants Exercisable Within 60 Days</b>	<b>Total</b>	<b>Percent of Class</b>
<b>Named Executive Officers and Directors</b>				
Glen E. Tullman(1)	669,010	270,556	939,566	2.4
Lee A. Shapiro	15,369	159,834	175,203	*
Joseph E. Carey	98,062	192,083	290,145	*
T. Scott Leisher	124,659	146,939	271,598	*
Stanley A. Crane	90,207	129,583	219,790	*
David B. Mullen(2)	519,649	137,702	657,351	1.7
Philip D. Green	55,839	108,771	164,610	*
M. Fazle Husain(3)	1,520,732		1,520,732	4.0
Michael J. Kluger(4)	3,309,370	23,200	3,332,570	8.7
Bernard Goldstein	54,998	11,500	66,548	*
Edward M. Philip	0	63,200	63,200	*
Richard E. Tarrant(5)	7,518,954		7,518,954	19.6
All directors and executive officers as a group (13 persons)	13,477,103	1,336,128	14,813,231	37.1
<b>5% Stockholders</b>				
IDX Systems Corporation(5)	7,483,538		7,483,538	19.5
Liberty Partners Holdings 6, L.L.C.(4)	3,248,170		3,248,170	8.4
Wellington Management Company, LLP(6)	3,225,700		3,225,700	8.4
FMR Corp.(7)	2,100,337		2,100,337	5.5
Dimensional Fund Advisors Inc.(8)	2,078,202		2,078,202	5.4
Willow Creek Capital Management(9)	2,001,446		2,001,446	5.2

\*  
Less than 1%.

- (1) Mr. Tullman is a limited partner in The Morgan Stanley Venture Partners Entrepreneur Fund, L.P., and has an approximately 2.5% interest therein. His interest does not constitute beneficial ownership of any of the shares owned by this entity.
- (2) Mr. Mullen, our former Chief Financial Officer, resigned effective September 13, 2002.
- (3) Mr. Husain is a managing member of Morgan Stanley Venture Partners III, L.L.C., which is the general partner of Morgan Stanley Venture Partners III, L.P., Morgan Stanley Venture Investors III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. (collectively, the Funds). Morgan Stanley Venture Partners III, L.P. owns 1,223,576 shares, Morgan Stanley Venture

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Investors III, L.P. owns 117,517 shares, The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. owns 52,970 shares and Morgan Stanley Venture Capital III, Inc. owns 70,283 shares. Mr. Husain may be deemed to have beneficial ownership of the shares held by the Funds. Mr. Husain disclaims beneficial ownership of the shares held by the Funds except to the extent of this pecuniary interest therein. Mr. Husain owns 56,386 shares directly.

- (4) Liberty Partners Holdings 6, L.L.C. has shared voting and dispositive power with respect to 3,248,170 shares. Mr. Kluger is a Managing Director of Liberty Capital Partners, Inc., an affiliate of Liberty Partners Holdings 6, L.L.C. Mr. Kluger disclaims beneficial ownership of the shares held by Liberty Partners Holdings 6, L.L.C., except to the extent of his proportionate interest therein. Mr. Kluger owns 61,200 shares directly. The address for Mr. Kluger and Liberty Partners Holdings 6, L.L.C. is c/o Liberty Partners, L.P., 1370 Avenue of the Americas, New York, New York 10019.
- (5) IDX is the owner of, and has shared voting and sole dispositive power with respect to 7,483,538 of the shares. Mr. Tarrant is the Chairman of the Board of IDX. He disclaims beneficial ownership of the shares held by IDX. Mr. Tarrant owns 35,416 shares directly. The address for Mr. Tarrant and IDX is c/o IDX Systems Corporation, 40 IDX Drive, South Burlington, Vermont 05403.
- (6) Wellington Management Company, LLP does not have sole voting or investment power with respect to any of the shares it holds, has shared voting power as to 2,917,800 shares and shared dispositive power as to 3,225,700 shares. Its address is 75 State Street, Boston, Massachusetts 02109.
- (7) FMR Corp. has no voting power and sole dispositive power with respect to all of the shares. Fidelity Management & Research Company, a wholly owned subsidiary of FMR Corp. and an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, is the beneficial owner of 2,100,337 shares of Allscripts common stock. The address for FMR Corp. and Fidelity Management & Research Company is 82 Devonshire Street, Boston, Massachusetts 02109.
- (8) Dimensional Fund Advisors Inc. ("Dimensional"), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts, collectively, the "Funds." In its role as investment advisor or manager, Dimensional has sole voting and dispositive power with respect to all of the shares, which are held by the Funds, and may be deemed to be the beneficial owner of the shares. Dimensional disclaims beneficial ownership of these shares. Dimensional's address is 1299 Ocean Avenue, 11<sup>th</sup> Floor, Santa Monica, California 90401.
- (9) Willow Creek Capital Management has shared voting power and dispositive power as to all 2,001,446 shares. Its address is 300 Drakes Landing Road, Suite 230, Greenbrae, California 94904.

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### Equity Compensation Plan Information

The following table provides information as of December 31, 2002 about Allscripts common stock that may be issued upon the exercise of options and rights under all of our existing equity compensation plans, including our Amended and Restated 1993 Stock Incentive Plan and our 2001 Nonstatutory Stock Option Plan. Stockholders did not approve the Nonstatutory Stock Option Plan, which is described below.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
<b>Equity compensation plans approved by security holders</b>	<b>4,326,581</b>	<b>\$ 8.12</b>	<b>2,014,985</b>
<b>Equity compensation plans not approved by security holders</b>	<b>2,500,875</b>	<b>\$ 4.27</b>	<b>497,750</b>

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
<b>Total(1)</b>	<b>6,827,456</b>	<b>\$ 6.71</b>	<b>2,512,735</b>

- (1) Excludes 405,236 shares subject to options outstanding pursuant to the Channelhealth Incorporated 1999 Stock Option Plan, which we assumed in connection with our 2001 acquisition of Channelhealth. These options have a weighted-average exercise price of \$30.03 per share.

### 2001 Nonstatutory Stock Option Plan

The board originally adopted the Plan on January 31, 2001. The Plan was not approved by our stockholders. The Plan has been amended from time to time since its initial adoption. The Plan will terminate on January 31, 2011. Currently, the board of directors may amend or terminate the Plan at any time without stockholder approval. Under the Plan, the compensation committee may grant stock options to key individuals performing services for us, including employees (other than officers or directors), consultants and independent contractors.

We presently have 3,000,000 shares of common stock reserved for issuance under the Plan. The number of shares underlying awards made to any one participant in a calendar year may not exceed 1,000,000 shares. The number of shares that can be issued and the number of shares subject to outstanding options may be adjusted in the event of a stock split, stock dividend, recapitalization or other similar event affecting the number of shares of our outstanding common stock.

The compensation committee administers the Plan. Subject to the specific provisions of the Plan, the committee determines award eligibility, timing and the amount and terms of the options. The committee also interprets the Plan, establishes rules and regulations under the Plan and makes all other determinations necessary or advisable for the Plan's administration. Options under the Plan must be nonqualified stock options. The compensation committee may specify any period of time following the date of grant during which options are exercisable, so long as the exercise period is not more than 10 years. Upon exercise, the option holder may pay the exercise price in such form as the compensation committee shall provide. Unless otherwise permitted by the Internal Revenue Code and Rule 16b-3 under the Securities Exchange Act of 1934 and approved in advance by the compensation committee, an option under the Plan may not be sold, assigned or otherwise transferred during its holder's lifetime.

### Item 13. Certain Relationships and Related Transactions

Our policy is that all transactions between us and our executive officers, directors and principal stockholders must be on terms no less favorable to us than we could obtain from unaffiliated third parties or else must be approved by our disinterested directors.

#### Registration Rights Agreement

Liberty Partners Holdings 6, L.L.C., Morgan Stanley Venture Investors III, L.P., Morgan Stanley Venture Partners III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund, L.P., which as of March 31, 2003 collectively held approximately 4,712,516 shares of common stock, are entitled to registration rights with respect to these shares. Under a registration rights agreement, these Morgan Stanley entities, collectively, on the one hand, and Liberty Partners Holdings 6, L.L.C., on the other hand, are each entitled to require us to register their shares of common stock three times, but not more than once in any six-month period. As of the date hereof, the Morgan Stanley entities, collectively, on the one hand, and Liberty Partners, on the other hand, had each exercised their right to require us to register their shares of common stock one time. In addition, if we propose or are required to register any of our common stock, either for our own account or for the account of other of our stockholders, we are required to notify the holders described above and, subject to certain limitations, to include in that registration all of the common stock requested to be included by those holders. We are obligated to bear the expenses, other than underwriting commissions, of all incidental registrations.

## Stock Rights and Restrictions Agreement

In connection with the Channelhealth merger transaction, we entered into a stock rights and restrictions agreement with IDX Systems Corporation, which is a significant stockholder of Allscripts, and of which Richard E. Tarrant, our Vice Chairman, is Chairman of the Board.

### *Allscripts Board of Directors*

Until the earlier of (1) termination of the stock rights and restrictions agreement or (2) the date that IDX and its affiliates beneficially own fewer than 25% of the Allscripts common shares issued to IDX upon completion of the Channelhealth merger, IDX is entitled to designate an individual to our board of directors. The initial IDX designee to our board was Mr. Tarrant. In addition, so long as (1) the IDX designee is Mr. Tarrant and (2) IDX and its affiliates beneficially own greater than 75% of the Allscripts common shares issued to IDX upon completion of the Channelhealth merger, Mr. Tarrant will be the sole Vice Chairman of our board, which is a non-executive position.

### *Limitation on Business Combination Transactions*

During the term of the stock rights and restrictions agreement, each of IDX and Allscripts has agreed not to engage in or propose any transaction referred to in the agreement as a "business combination", which means a merger, consolidation, "business combination" as defined in Section 203 of the Delaware General Corporation Law as currently in effect, compulsory share exchange or other transaction involving the other and pursuant to which the other party's voting securities are exchanged for cash, securities or other property, or any sale of all or substantially all of the assets or liquidation of the other party, including by means of a tender or exchange offer, or request or solicit any other person to engage in or propose a business combination, unless the transaction is approved by a majority of the other party's continuing directors, as defined in the agreement, or the party engaging in or proposing the transaction beneficially owns less than 5% of the other party's voting securities and has no representative on the other party's board of directors.

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### *Limitation on Acquisition and Disposition of Voting Securities*

Without the consent of a majority of the other party's continuing directors, neither party may acquire any additional voting securities of the other, except under certain limited circumstances. In addition, the stock rights and restrictions agreement imposes certain limitations on IDX's ability to transfer beneficial ownership of its Allscripts voting securities. The stock rights and restrictions agreement also provides that if during the period from the third anniversary through the fourth anniversary of the agreement, we propose to file a registration statement under the Securities Act with respect to a primary firm commitment underwritten public offering of Allscripts common stock, IDX will have the right to "piggyback" on the offering by notifying us that IDX wants to include some or all of its Allscripts shares in the registration, subject to customary "cutback" provisions. We will pay all of the expenses of the piggyback registration, except underwriting discounts and commissions on shares sold by IDX, fees of IDX's counsel and any transfer taxes applicable to the sale of the IDX shares.

### *Voting of Allscripts Shares Held by IDX*

Generally the stock rights and restrictions agreement permits IDX to vote in its complete discretion on all matters voted on by Allscripts stockholders. Notwithstanding the foregoing, on certain matters IDX generally must vote all of its Allscripts shares in accordance with the recommendation of the Allscripts continuing directors; provided that, except in limited circumstances related to IDX's breach of its obligations to Allscripts, IDX is not required to vote its Allscripts shares in accordance with the recommendation if the average closing price of Allscripts stock during the 90 trading days preceding the vote is less than \$14.5625. These matters are those that:

constitute a business combination involving Allscripts;

involve the acquisition by any person other than IDX or its affiliates of beneficial ownership of greater than 50% of the then outstanding Allscripts voting securities;

involve the issuance by Allscripts of its own securities for cash; or

involve any acquisition by Allscripts, whether through merger, share exchange, purchase of assets or otherwise.

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### *IDX's Right to Participate in Securities Issuances by Allscripts*

If at any time during the term of the stock rights and restrictions agreement we plan to issue Allscripts voting securities, or securities exercisable, exchangeable for or convertible into Allscripts voting securities and, as a result, IDX's beneficial ownership of all outstanding Allscripts voting securities would be reduced to below 2% after giving effect to the proposed transaction, then we must offer to sell to IDX a number or amount of the securities proposed to be issued that, if purchased by IDX, would permit IDX and its affiliates to beneficially own a number of Allscripts voting securities determined by dividing the aggregate number of outstanding Allscripts common shares then beneficially owned by IDX by the total number of Allscripts common shares then outstanding.

### *Termination*

The stock rights and restrictions agreement will terminate by its terms in January 2011, but it may be terminated earlier as follows:

by mutual written consent of IDX and us; or

by IDX if we file for bankruptcy, or another person commences a bankruptcy proceeding against us and the proceeding is not dismissed or stayed within 60 days, or if an order for relief under a bankruptcy law is entered against Allscripts.

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### **Strategic Alliance Agreement**

Upon completion of the Channelhealth merger transaction, we entered into a strategic alliance agreement with IDX.

#### *Marketing of Channelhealth Products*

The strategic alliance agreement provides for a ten-year strategic alliance under which Allscripts and IDX will cooperate to develop and market Channelhealth products pursuant to a development plan to be updated at least quarterly during the term of the alliance. Each of Allscripts and IDX are required to develop connectivity between their respective products to facilitate data exchange and ease of use. The parties are required to compensate and motivate their sales forces to sell our products to IDX customers and prospects.

#### *Marketing Restrictions*

During the term of the alliance, each party, subject to certain exceptions, is prohibited from entering into any relationship or arrangement with direct competitors of the other party to develop or provide competitive products other than those currently marketed by such party. Either party may terminate the marketing restrictions to which it is subject upon the occurrence of a material adverse change in the business, properties, results of operations or condition (financial or otherwise) of the other party (other than changes that are the result of economic factors affecting the economy as a whole or changes that are the result of factors generally affecting the specific industry or markets in which the party competes).

#### *Compensation*

Allscripts and IDX are entitled to agreed upon revenue sharing for sales of each other's products. In 2002, we paid IDX \$894,317 pursuant to this obligation. In addition, we lease office space from IDX, and in 2002 we paid IDX \$514,114 for the lease of the office space and use of the facility's infrastructure. During 2002, IDX paid us \$801,349 related to marketing sponsorships, revenue sharing and miscellaneous expense reimbursements under the Strategic Alliance Agreement.

#### *Change of Control*

If during the term of the alliance, a change of control occurs with respect to either party with a direct competitor of the other party, the party undergoing the change of control will be subject to certain revenue sharing obligations with the other party and, upon the termination of the Strategic Alliance Agreement, must deliver all source code for Allscripts products to the other party.

#### *Termination of Alliance*

Either party may terminate the alliance in the event the other party becomes insolvent or if the other party has defaulted under or breached any material term of the strategic alliance agreement and has not cured the default or breach within 120 days after it occurs.

#### **Amended and Restated Cross License and Software Maintenance Agreement**

In connection with the Channelhealth merger transaction, Channelhealth and IDX entered into an amended and restated cross license and software maintenance agreement.

##### *Cross License*

The amended and restated cross license and software maintenance agreement provides for, in the case of IDX, the granting of a perpetual, non-exclusive, non-cancelable and non-terminable, fully

paid-up license to Channelhealth permitting Channelhealth to copy, use, display, perform, adopt, modify and maintain certain IDX software applications and related intellectual property rights, and create derivative works with regard to the software, for the purpose of merging IDX software with Allscripts' products and to market and sublicense IDX software in connection with the marketing of those products and, in the case of Channelhealth, the granting of a perpetual, non-exclusive, non-cancelable and non-terminable, fully paid-up license to IDX permitting IDX to copy, use, display, perform, market, sublicense, transmit, create and own derivative works and to distribute certain Channelhealth software applications and related intellectual property rights in connection with IDX's "Patient Channel" business.

##### *Termination*

In the event that the strategic alliance agreement between Allscripts and IDX is terminated or not renewed, the license granted by IDX to Channelhealth will terminate with respect to certain IDX technologies developed by IDX and incorporated by IDX into IDX software, except as used by Channelhealth to create or maintain compatibility or connectivity between Allscripts products and IDX products.

#### **Certain Business Relationships**

In 2002, we retained the law firm of Akin, Gump, Strauss, Hauer & Feld, L.L.P., of which Philip D. Green, one of our directors, is currently a partner. In 2002, we paid Akin, Gump fees of \$13,867.

#### **Item 14. Controls and Procedures**

(a)

##### Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c)) as of a date within 90 days of the filing date of this annual report on Form 10-K (the "Evaluation Date"). Based on their review and evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were adequate and effective to ensure that material information relating to us and our consolidated subsidiaries has been made known to them in a timely manner, particularly during the period in which this annual report on Form 10-K was being prepared, and that no changes are required at this time.

(b)

##### Changes in Internal Controls

There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date, or any significant deficiencies or material weaknesses in such internal controls requiring corrective actions. As a result, no corrective actions have been taken.



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**Certification of Chief Financial Officer**

I, William J. Davis, certify that:

1. I have reviewed this amendment to annual report on Form 10-K/A of Allscripts Healthcare Solutions, Inc.;
2. Based on my knowledge, this amendment to annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amendment to annual report;
3. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a. designed such disclosure controls and procedures to ensure the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amendment to annual report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amendment to annual report (the "Evaluation Date"); and
  - c. presented in this amendment to annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
4. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
5. The registrant's other certifying officers and I have indicated in this amendment to annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weakness.

Date: April 24, 2003

/s/ WILLIAM J. DAVIS

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Chief Financial Officer

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