

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

Form 10-Q

November 07, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2014

OR

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

Commission file number 001-35547

**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-4392754**  
(I.R.S. Employer  
Identification Number)

**222 Merchandise Mart, Suite 2024**

**Chicago, IL 60654**

(Address of principal executive offices)

**(312) 506-1200**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 31, 2014, there were 180,261,934 shares of the registrant's \$0.01 par value common stock outstanding.

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**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

**FORM 10-Q**

**For the Fiscal Quarter Ended September 30, 2014**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

<b>(In thousands, except per share amounts)</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 37,345	\$ 62,954
Accounts receivable, net of allowance of \$39,355 and \$54,252 at September 30, 2014 and December 31, 2013, respectively	340,696	313,486
Deferred taxes, net	55,458	55,468
Prepaid expenses and other current assets	115,212	107,911
<b>Total current assets</b>	<b>548,711</b>	<b>539,819</b>
Long-term marketable securities	1,321	1,329
Fixed assets, net	152,213	174,013
Software development costs, net	85,018	88,244
Intangible assets, net	422,192	455,971
Goodwill	1,200,651	1,189,585
Deferred taxes, net	7,361	7,361
Other assets	153,394	163,341
<b>Total assets</b>	<b>\$ 2,570,861</b>	<b>\$ 2,619,663</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 86,432	\$ 72,956
Accrued expenses	79,751	96,499
Accrued compensation and benefits	55,638	80,196
Deferred revenue	277,243	251,038
Current maturities of long-term debt and capital lease obligations	24,703	16,350
<b>Total current liabilities</b>	<b>523,767</b>	<b>517,039</b>
Long-term debt	562,519	545,133
Deferred revenue	26,823	29,080
Deferred taxes, net	86,332	79,694
Other liabilities	88,594	130,572
<b>Total liabilities</b>	<b>1,288,035</b>	<b>1,301,518</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: \$0.01 par value, 1,000 shares authorized, no shares issued and outstanding at September 30, 2014 and December 31, 2013	0	0
Common stock: \$0.01 par value, 350,000 shares authorized at September 30, 2014 and December 31, 2013; 264,914 and 180,242 shares issued and outstanding at September 30, 2014, respectively; 263,474 and 178,802 shares issued and outstanding at December 31, 2013, respectively	2,648	2,635

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Treasury stock: at cost, 84,672 at September 30, 2014 and December 31, 2013	(278,036)	(278,036)
Additional paid-in capital	1,745,416	1,716,847
Accumulated deficit	(185,831)	(121,556)
Accumulated other comprehensive loss	(1,371)	(1,745)
Total stockholders' equity	1,282,826	1,318,145
Total liabilities and stockholders' equity	\$ 2,570,861	\$ 2,619,663

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

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**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenue:</b>				
System sales	\$ 21,440	\$ 26,498	\$ 70,601	\$ 85,978
Professional services	54,825	49,003	167,563	169,293
Maintenance	117,454	117,928	348,111	351,840
Transaction processing and other	151,670	136,762	450,695	414,973
<b>Total revenue</b>	<b>345,389</b>	<b>330,191</b>	<b>1,036,970</b>	<b>1,022,084</b>
<b>Cost of revenue:</b>				
System sales (excluding amortization of software development and acquisition-related assets shown below)	7,313	14,767	25,921	41,176
Amortization of software development and acquisition-related assets	20,582	23,006	61,525	62,536
Professional services	50,224	47,295	146,767	162,278
Maintenance	36,638	35,841	111,123	107,864
Transaction processing and other	99,176	83,735	282,004	251,973
<b>Total cost of revenue</b>	<b>213,933</b>	<b>204,644</b>	<b>627,340</b>	<b>625,827</b>
<b>Gross profit</b>	<b>131,456</b>	<b>125,547</b>	<b>409,630</b>	<b>396,257</b>
Selling, general and administrative expenses	97,034	104,506	273,643	310,326
Research and development	45,962	49,400	151,283	151,881
Asset impairment charges	188	7,371	2,134	10,504
Amortization of intangible and acquisition-related assets	7,112	7,722	22,414	23,602
<b>Loss from operations</b>	<b>(18,840)</b>	<b>(43,452)</b>	<b>(39,844)</b>	<b>(100,056)</b>
Interest expense	(7,542)	(6,895)	(22,005)	(21,031)
Other income (expense), net	171	(826)	369	7,523
<b>Loss before income taxes</b>	<b>(26,211)</b>	<b>(51,173)</b>	<b>(61,480)</b>	<b>(113,564)</b>
Income tax benefit (provision)	448	2,233	(2,795)	30,156
<b>Net loss</b>	<b>(\$ 25,763)</b>	<b>(\$ 48,940)</b>	<b>(\$ 64,275)</b>	<b>(\$ 83,408)</b>
<b>Loss per share basic and diluted</b>	<b>(\$ 0.15)</b>	<b>(\$ 0.27)</b>	<b>(\$ 0.36)</b>	<b>(\$ 0.47)</b>

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

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

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net loss	(\$ 25,763)	(\$ 48,940)	(\$ 64,275)	(\$ 83,408)
Other comprehensive (loss) income, net of taxes:				
Unrealized gain on marketable securities, net of tax	8	27	19	11
Derivatives qualifying as hedges:				
Unrealized loss on interest rate swap	0	(79)	(38)	(112)
Reclassification adjustment for loss included in net loss	110	286	465	968
Tax effect	(43)	(82)	(168)	(334)
Unrealized gain on interest rate swap, net of tax	67	125	259	522
Change in foreign currency translation adjustments	(824)	725	96	(1,724)
Total other comprehensive (loss) income	(749)	877	374	(1,191)
Comprehensive loss	(\$ 26,512)	(\$ 48,063)	(\$ 63,901)	(\$ 84,599)

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

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

<b>(In thousands)</b>	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Net loss	(\$ 64,275)	(\$ 83,408)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	131,546	131,797
Stock-based compensation expense	32,203	27,788
Excess tax benefits from stock-based compensation	(2,246)	(3,296)
Deferred taxes	5,996	(31,537)
Asset impairment charges	2,134	10,504
Other losses (gains), net	3,214	(915)
Changes in operating assets and liabilities, net of business combinations:		
Accounts receivable, net	(22,287)	10,966
Prepaid expenses and other assets	(16,180)	(25,330)
Accounts payable	13,651	8,707
Accrued expenses	(22,120)	(8,981)
Accrued compensation and benefits	(24,896)	12,313
Deferred revenue	20,732	23,169
Other liabilities	(5,469)	(8,466)
Net cash provided by operating activities	52,003	63,311
Cash flows from investing activities:		
Capital expenditures	(20,656)	(56,988)
Capitalized software	(28,318)	(30,462)
Cash paid for business acquisitions, net of cash acquired	(20,180)	(148,875)
Purchases of marketable securities, other investments and related intangible assets	(21,544)	0
Sales and maturities of other investments	39	12,855
Proceeds from sale of fixed assets	86	0
Net cash used in investing activities	(90,573)	(223,470)
Cash flows from financing activities:		
Proceeds from issuance 1.25% senior cash convertible notes, net of issuance costs	0	336,962
Purchase of call option related to 1.25% senior cash convertible notes	0	(82,800)
Proceeds from issuance of warrants, net of issuance costs	0	51,208
Proceeds from issuance of common stock	1,670	11,256
Excess tax benefits from stock-based compensation	2,246	3,296
Taxes paid related to net share settlement of equity awards	(8,891)	(7,884)
Payments of capital lease obligations	(337)	(416)
Payments of acquisition financing obligations	0	(29,671)
Credit facility payments	(73,751)	(574,281)
Credit facility borrowings, net of issuance costs	91,964	410,983
Net cash provided by financing activities	12,901	118,653
Effect of exchange rate changes on cash and cash equivalents	60	(1,660)
Net decrease in cash and cash equivalents	(25,609)	(43,166)
Cash and cash equivalents, beginning of period	62,954	103,956



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Cash and cash equivalents, end of period	\$ 37,345	\$ 60,790
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The accompanying notes are an integral part of these consolidated financial statements.

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**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Summary of Significant Accounting Policies**

***Principles of Consolidation***

The consolidated financial statements include the accounts of Allscripts Healthcare Solutions, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Each of the terms *we*, *us*, or *our* as used herein refers collectively to Allscripts Healthcare Solutions, Inc. and its wholly-owned subsidiaries, unless otherwise stated.

***Basis of Presentation***

The unaudited interim consolidated financial statements as of and for the three and nine months ended September 30, 2014 have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the *SEC*) for interim financial reporting. These interim consolidated financial statements are unaudited and, in the opinion of our management, include all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the consolidated financial statements for the periods presented in accordance with generally accepted accounting principles in the United States of America (*GAAP*). The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014.

Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted pursuant to the *SEC*'s rules and regulations for interim reporting. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013 (our *Form 10-K*).

***Use of Estimates***

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

***Significant Accounting Policies***

There have been no changes to our significant accounting policies from those disclosed in our *Form 10-K*.

***Recently Adopted Accounting Pronouncements***

In March 2013, the Financial Accounting Standards Board (*FASB*) issued updated authoritative guidance to resolve the diversity in practice about whether *FASB Account Standards Codification (ASC) Subtopic 810-10, Consolidation Overall*, or *ASC Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements*, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, this guidance resolves the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. This guidance is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013 and we adopted the new guidance in the first quarter of 2014. The adoption of this accounting guidance had no impact on our consolidated results.

In July 2013, the *FASB* issued Accounting Standards Update No. 2013-011, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (*ASU 2013-011*). *ASU 2013-011* provides specific guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new guidance applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date and states that an unrecognized tax benefit in those circumstances should be

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presented as a reduction to the deferred tax asset. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and we adopted the new guidance prospectively in the first quarter of 2014. The adoption of this accounting guidance resulted in the reclassification, for presentation purposes only, of approximately \$4 million from other liabilities to deferred tax assets in our consolidated balance sheet as of September 30, 2014.

**Table of Contents*****Accounting Pronouncements Not Yet Adopted***

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers: Topic 606* ( ASU 2014-09 ), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard permits the use of either the retrospective or cumulative effect transition methods. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently in the process of evaluating this new guidance.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, *Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ( ASU 2014-12 ). ASU 2014-12 requires that a performance target that affects vesting of a share-based award, and that could be achieved after the requisite service period, be treated as a performance condition. ASU 2014-12 is effective for reporting periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. In addition, entities will have the option of applying the guidance either prospectively (i.e. only to awards granted or modified on or after the effective date of ASU 2014-12) or retrospectively. We are currently evaluating the impact of this accounting guidance, but do not expect it to have any material impact on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* ( ASU 2014-15 ), which requires management of an entity to evaluate, in connection with preparing financial statements for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about such entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable), and provide related disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. We are currently evaluating the impact of this accounting guidance, but do not expect it to have any material impact on our consolidated financial statements.

We do not believe that any other recently issued, but not yet effective accounting standards, if currently adopted, would have a material impact on our consolidated financial statements.

**2. Business Combinations*****Acquisition of Oasis Medical Solutions Limited***

On July 8, 2014, we acquired the entire capital stock of Oasis Medical Solutions Limited ( Oasis ), a privately-held, Patient Administration System and health informatics solutions provider headquartered in London, United Kingdom, for approximately \$20.6 million in cash. The preliminary allocation of the fair value of the consideration transferred is as follows: approximately \$0.4 million of acquired cash; approximately \$5.7 million of accounts receivable and other current assets; approximately \$6.3 million of intangible assets related to technology, including Oasis tradename; approximately \$6.5 million of intangible assets related to customer relationships; goodwill of approximately \$10.6 million; approximately \$0.2 million of fixed assets; approximately \$6.4 million of accounts payable, deferred revenue and accruals; and approximately \$2.7 million of net deferred tax liabilities. Goodwill was determined based on the residual difference between the fair value of the consideration transferred and the value assigned to tangible and intangible assets and liabilities, and is not deductible for tax purposes. Among the factors that contributed to a purchase price resulting in the recognition of goodwill were the expected synergies that we believe will result from the integration of our product offerings with those of Oasis. The acquired intangible assets, excluding goodwill, will be amortized on a straight-line basis and have estimated lives of 10 years, with the exception of Oasis customer relationships, which have an estimated life of 12 years.

The pro forma impact of the Oasis acquisition on current and prior quarters, as well as the net revenue and results of operations of Oasis subsequent to its acquisition for the three months ended September 30, 2014, were not material. We did not incur any significant acquisition and integration-related costs related to the Oasis acquisition during the three months ended September 30, 2014.

***Acquisition of dbMotion Ltd.***

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On March 4, 2013, we acquired all of the issued and outstanding share capital of dbMotion Ltd. ( dbMotion ), a leading supplier of community health solutions.

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Under the acquisition method of accounting, the fair value of consideration transferred was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the remaining unallocated amount recorded as goodwill. During the three months ended March 31, 2014, we finalized the allocation of the fair value of the consideration transferred, which resulted in an increase of approximately \$1.0 million in both the total fair value of consideration transferred and the residual allocation to goodwill.

The final fair value of consideration transferred for the dbMotion acquisition is comprised of the following:

	(In thousands)
Cash	\$ 140,079
Allscripts common stock, 3,823,453 shares, par value \$0.01 per share, fair value at closing \$12.57 per share	48,061
Deferred cash consideration payable on the 18-month anniversary of the closing	23,023
Subordinated promissory note maturing 18 months following the closing	6,648
Fair value of Allscripts previous interest in dbMotion	8,367
<b>Total fair value of consideration transferred</b>	<b>\$ 226,178</b>

The allocation of the fair value of the consideration transferred, including all measurement period adjustments, is as follows:

	(In thousands)
Acquired cash and cash equivalents, and restricted cash	\$ 14,188
Accounts receivable, net	3,226
Prepaid expenses and other current assets	574
Fixed assets and other long-term assets	1,449
Goodwill	137,649
Intangible assets	85,450
Accounts payable and accrued liabilities	(10,560)
Deferred taxes, net	(36)
Deferred revenue	(5,100)
Other liabilities	(662)
<b>Net assets acquired</b>	<b>\$ 226,178</b>

Acquisition costs related to the dbMotion acquisition are included in selling, general and administrative expenses and totaled approximately \$0.8 million and \$1.8 million for the three months ended September 30, 2014 and 2013, respectively, and approximately \$3.6 million and \$6.0 million for the nine months ended September 30, 2014 and 2013, respectively. These costs include employee compensation costs of approximately \$0.8 million and \$1.8 million for the three months ended September 30, 2014 and 2013, respectively, approximately \$3.6 million and \$4.2 million for the nine months ended September 30, 2014 and 2013, respectively; and \$0.5 million of seller transaction costs for the nine months ended September 30, 2013. In addition, we incurred \$2.4 million and \$5.5 million for the three and nine months ended September 30, 2013, respectively, related to product consolidation activities, which are included in asset impairment charges.

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The revenue and net loss of dbMotion since March 4, 2013 included in our consolidated statement of operations for the three and nine months ended September 30, 2013, and the supplemental pro forma revenue and net loss of the combined entity, are as follows:

(In thousands)	Three Months Ended September 30, 2013 (Unaudited)	Nine Months Ended September 30, 2013 (Unaudited)
Actual from dbMotion since acquisition date of March 4, 2013:		
Revenue	\$ 124	\$ 852
Net loss	(\$ 9,579)	(\$ 21,119)
Supplemental pro forma data for combined entity:		
Revenue	\$ 331,527	\$ 1,025,951
Net loss	(\$ 47,139)	(\$ 86,667)
Net loss per share, basic and diluted	(\$ 0.26)	(\$ 0.49)

The unaudited supplemental pro forma data has been calculated after applying our accounting policies and adjusting the results of dbMotion to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on January 1, 2012, together with the consequential tax effects. Supplemental pro forma results for the three and nine months ended September 30, 2013 were adjusted to exclude acquisition-related costs incurred during the periods as well as the nonrecurring gain related to the fair value adjustment of our prior cost method investment in dbMotion. The effects of transactions between us and dbMotion during the periods presented have been eliminated.

Amortization of software development and acquisition-related assets in our consolidated statement of operations for the three and nine months ended September 30, 2014 includes approximately (\$0.1) million and (\$0.4) million, respectively, related to the acquisition of dbMotion, which is attributable to professional services cost of revenue. Amortization of software development and acquisition-related assets in our consolidated statement of operations for the three and nine months ended September 30, 2013 includes approximately \$2.9 million and \$4.7 million, respectively, related to the acquisition of dbMotion, which is attributable to cost of revenue as follows: approximately \$1.0 million and \$1.7 million, respectively, related to system sales; approximately \$1.1 million and \$1.2 million, respectively, related to professional services, and approximately \$0.8 million and \$1.8 million, respectively, related to maintenance.

**Acquisition of Jardogs LLC**

Also on March 4, 2013, we acquired substantially all of the assets of Jardogs LLC ( Jardogs ), the developer of FollowMyHealth, a highly-rated, cloud-based patient engagement solution provider, for \$24 million in cash. During the three months ended March 31, 2014, we finalized the allocation of the Jardogs purchase price, resulting in no additional measurement period adjustments to the fair values of the assets and liabilities acquired as disclosed in our Form 10-K.

The pro forma impact of the Jardogs acquisition on current and prior quarters, as well as the net revenue and operating losses generated by Jardogs subsequent to its acquisition for the three and nine months ended September 30, 2013, were not material. Acquisition and integration-related costs related to the Jardogs acquisition are included in selling, general and administrative expenses and totaled approximately \$0.7 million for the nine months ended September 30, 2013. We did not incur any significant acquisition and integration-related costs related to the Jardogs acquisition during the three months ended September 30, 2013 or during the three and nine months ended September 30, 2014.

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Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair values of assets and liabilities required to be measured at fair value are categorized based upon the level of judgment associated with the inputs used to measure their value in one of the following three categories:

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

**Level 2:** Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. Our Level 2 non-derivative investments include marketable securities and consist of mortgage and asset-backed bonds. Marketable securities are recorded at fair value determined using a market approach, based on prices and other relevant information generated by market transactions involving identical or comparable assets which are considered to be Level 2 inputs. Our Level 2 derivative financial instrument is an interest rate swap contract which is valued based upon observable values for underlying interest rates and market determined risk premiums.

**Level 3:** Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Our Level 3 financial instruments include derivative financial instruments comprising the 1.25% Call Option (as defined in Note 10, Derivative Financial Instruments, ) asset and the embedded cash conversion option liability. Refer to Note 8, Debt, and Note 10, Derivative Financial Instruments, for further information regarding our derivative financial instruments. These derivatives are not actively traded and are valued based on an option pricing model that uses observable and unobservable market data for inputs. Significant market data inputs used to determine the fair value as of September 30, 2014 and December 31, 2013 included our common stock price, time to maturity of the derivative instruments, the risk-free interest rate, and the implied volatility of our common stock. The 1.25% Call Option asset and the embedded cash conversion option liability were designed with the intent that changes in their fair values would substantially offset, with limited net impact to our earnings. Therefore, we believe the sensitivity of changes in the unobservable inputs to the option pricing model for such instruments is substantially mitigated.

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

(In thousands)	Balance Sheet Classifications	September 30, 2014				December 31, 2013			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money market funds	Cash equivalents	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,634	\$ 0	\$ 0	\$ 3,634
Marketable securities	Long-term marketable securities	0	1,321	0	1,321	0	1,329	0	1,329
1.25% Call Option	Other assets	0	0	67,677	67,677	0	0	104,656	104,656
Cash conversion option	Other liabilities	0	0	(68,491)	(68,491)	0	0	(105,637)	(105,637)
Interest rate swap	Other liabilities	0	(31)	0	(31)	0	(458)	0	(458)
<b>Total</b>		<b>\$ 0</b>	<b>\$ 1,290</b>	<b>(\$ 814)</b>	<b>\$ 476</b>	<b>\$ 3,634</b>	<b>\$ 871</b>	<b>(\$ 981)</b>	<b>\$ 3,524</b>

During the first quarter of 2014, we acquired certain non-marketable equity securities of a third party and entered into a commercial agreement with the third party to license and distribute its products and services for total consideration of approximately \$6.0 million. The equity investment and commercial agreement were valued at approximately \$4.1 million and \$1.9 million, respectively. During the second and third quarters of 2014, we acquired certain non-marketable equity securities of three other third parties for total consideration of approximately \$15.1 million. Of the four equity investments acquired during the nine months ended September 30, 2014, three are accounted for under the cost method, and one is accounted for under the equity method. The carrying values of the cost method investments and the equity method investment of approximately \$17.8 million and \$1.4 million, respectively, are included in other assets and the carrying value of the



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above-referenced commercial agreement is included in intangible assets, net, in the accompanying consolidated balance sheet as of September 30, 2014. As of December 31, 2013, our outstanding investments in non-marketable equity securities were not material.

Our long-term financial liabilities include amounts outstanding under our senior secured credit facility, with carrying values that approximate fair value since the interest rates approximate current market rates. In addition, the carrying amount of our 1.25% Cash Convertible Senior Notes (the 1.25% Notes ) also approximates fair value as of September 30, 2014, since the effective interest rate on the 1.25% Notes also approximates current market rates. See Note 8, Debt, for further information regarding our long-term financial liabilities.

**Table of Contents****4. Stockholders' Equity****Stock-based Awards**

We measure stock-based compensation expense at the grant date based on the fair value of the award. We recognize the expense for service-based share awards over the appropriate service period on a straight-line basis, net of estimated forfeitures. We recognize the expense for performance-based and market-based share awards over the vesting period under the accelerated attribution method, net of estimated forfeitures. In addition, we recognize stock-based compensation cost for awards with performance conditions if and when we conclude that it is probable that the performance conditions will be achieved.

The fair value of service-based restricted stock units and restricted stock awards is measured at their underlying closing share price on the date of grant. The fair value of market-based restricted stock units is measured using the Monte Carlo pricing model. The fair value of stock options granted during the three and nine months ended September 30, 2013 was determined using the Black-Scholes-Merton valuation model and reflects the below input assumptions. During the three and nine months ended September 30, 2013, approximately 0.2 million and 3.8 million stock options, respectively, were granted. No stock options were granted during the three and nine months ended September 30, 2014.

	<b>Three Months Ended September 30, 2013</b>	<b>Nine Months Ended September 30, 2013</b>
Weighed-average exercise price	\$ 15.22	\$ 13.78
Expected term (in years)	4.75	4.75
Expected volatility	48.0%	54.9%
Expected dividend yield	0%	0%
Risk-free interest rate	1.4%	0.8%

Stock-based compensation expense recognized during the three and nine months ended September 30, 2014 and 2013 is included in our consolidated statements of operations as follows:

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Cost of revenue:</b>				
Professional services	\$ 622	\$ 607	\$ 2,086	\$ 1,924
Maintenance	285	313	1,084	1,116
Transaction processing and other	428	372	1,550	1,271
<b>Total cost of revenue</b>	<b>1,335</b>	<b>1,292</b>	<b>4,720</b>	<b>4,311</b>
Selling, general and administrative expenses	7,881	6,606	20,999	17,418
Research and development	839	1,780	6,484	6,059
<b>Total stock-based compensation expense</b>	<b>\$ 10,055</b>	<b>\$ 9,678</b>	<b>\$ 32,203</b>	<b>\$ 27,788</b>

No stock-based compensation costs were capitalized during the three and nine months ended September 30, 2014 and 2013.

During the three and nine months ended September 30, 2014, we granted the following stock-based awards:

<b>(In thousands, except per share amounts)</b>	<b>Three Months Ended September 30, 2014</b>		<b>Nine Months Ended September 30, 2014</b>	
	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>

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Service-based restricted stock units	13	\$	14.91	1,453	\$	18.09
Performance-based restricted stock units with a service condition	0	\$	0.00	467	\$	18.51
Market-based restricted stock units with a service condition	0	\$	0.00	221	\$	14.36
	13	\$	14.91	2,141	\$	17.79

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During the nine months ended September 30, 2014 and the year ended December 31, 2013, approximately 1.4 million and 2.6 million shares of stock, respectively, were issued in connection with the exercise of options and the release of restrictions on stock awards.

### ***Stock Repurchases***

The stock repurchase program approved by the Board of Directors of Allscripts Healthcare Solutions, Inc. (the Board) in April 2011 expired on May 9, 2014. No shares were repurchased under this program during the six months ended June 30, 2014 and the year ended December 31, 2013. As of the date of this report, there is no current authorization.

### ***Net Share-settlements***

Beginning in 2011, upon vesting, restricted stock units and awards are generally net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock. The majority of restricted stock units and awards that vested in 2014 and 2013 were net-share settled such that we withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. Total payments for the employees' minimum statutory tax obligations to the taxing authorities are reflected as a financing activity within the accompanying consolidated statements of cash flows. The total shares withheld for the nine months ended September 30, 2014 and 2013 were approximately 549 thousand and 564 thousand, respectively, and were based on the value of the restricted stock units and awards on their vesting date as determined by our closing stock price. These net-share settlements had the effect of share repurchases by us as they reduced the number of shares that would have otherwise been issued as a result of the vesting.

### ***Issuance of Warrants***

In June 2013, we agreed to issue a warrant to a commercial partner as part of an overall commercial relationship pursuant to which the warrant holder has the right to purchase 1.5 million shares of our common stock at a strike price of \$12.94 per share. The warrant vests in four equal annual installments of 375 thousand shares (beginning in June 2014) and expires in June 2020. Our issuance of the warrant was a private placement exempt from registration pursuant to Section 4(a)(2) under the Securities Act of 1933, as amended. This warrant is not actively traded and is valued based on an option pricing model that uses observable and unobservable market data for inputs. During the three and nine months ended September 30, 2014, we recognized approximately \$0.6 million and \$1.9 million, respectively, of the fair value of the warrant as a reduction to transaction processing and other revenue. During the three and nine months ended September 30, 2013, we recognized approximately \$0.8 million of the fair value of the warrant as a reduction to transaction processing and other revenue.

**Table of Contents****5. Earnings (Loss) Per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average shares of common stock outstanding. For purposes of calculating diluted earnings per share, the denominator includes both the weighted average shares of common stock outstanding and dilutive common stock equivalents. Dilutive common stock equivalents consist of stock options, restricted stock unit awards and warrants calculated under the treasury stock method.

The calculations of earnings (loss) per share are as follows:

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Basic Loss per Common Share:</b>				
Net loss	(\$ 25,763)	(\$ 48,940)	(\$ 64,275)	(\$ 83,408)
Net loss available to common stockholders	(\$ 25,763)	(\$ 48,940)	(\$ 64,275)	(\$ 83,408)
Weighted-average common shares outstanding	180,189	178,166	179,691	176,517
<b>Basic Loss per Common Share</b>	<b>(\$ 0.15)</b>	<b>(\$ 0.27)</b>	<b>(\$ 0.36)</b>	<b>(\$ 0.47)</b>
<b>Diluted Loss per Common Share:</b>				
Net loss	(\$ 25,763)	(\$ 48,940)	(\$ 64,275)	(\$ 83,408)
Net loss available to common stockholders	(\$ 25,763)	(\$ 48,940)	(\$ 64,275)	(\$ 83,408)
Weighted-average common shares outstanding	180,189	178,166	179,691	176,517
Dilutive effect of stock options, restricted stock unit awards and warrants	0	0	0	0
<b>Weighted-average common shares outstanding assuming dilution</b>	<b>180,189</b>	<b>178,166</b>	<b>179,691</b>	<b>176,517</b>
<b>Diluted Loss per Common Share</b>	<b>(\$ 0.15)</b>	<b>(\$ 0.27)</b>	<b>(\$ 0.36)</b>	<b>(\$ 0.47)</b>

As a result of our net loss available to common stockholders for the three and nine months ended September 30, 2014 and 2013, we used basic weighted-average common shares outstanding in the calculation of diluted loss per share for each of these periods, since the inclusion of any stock equivalents would be anti-dilutive.

The following stock options, restricted stock unit awards and warrants are not included in the computation of diluted (loss) earnings per share as the effect of including such stock options, restricted stock unit awards and warrants in the computation would be anti-dilutive:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Shares subject to anti-dilutive stock options, restricted stock unit awards and warrants excluded from calculation	24,117	24,839	24,314	11,388

**Table of Contents****6. Goodwill and Intangible Assets**

Goodwill and intangible assets consist of the following:

(In thousands)	September 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
<b>Intangibles subject to amortization</b>						
Proprietary technology	\$ 451,320	(\$ 258,511)	\$ 192,809	\$ 445,960	(\$ 231,634)	\$ 214,326
Customer contracts and relationships	550,895	(373,512)	177,383	542,205	(352,560)	189,645
Total	\$ 1,002,215	(\$ 632,023)	\$ 370,192	\$ 988,165	(\$ 584,194)	\$ 403,971
<b>Intangibles not subject to amortization</b>						
Registered trademarks			\$ 52,000			\$ 52,000
Goodwill			1,200,651			1,189,585
Total			\$ 1,252,651			\$ 1,241,585

During the three months ended September 30, 2014, in connection with our acquisition of Oasis, we recognized additional goodwill of \$10.6 million, which remains subject to future adjustments before the close of the measurement period. In addition, during the three months ended March 31, 2014, we finalized the allocation of the fair value of the consideration we paid in connection with our acquisitions of dbMotion and Jardogs, which resulted in the recognition of additional goodwill of approximately \$1.0 million. Refer to Note 2, Business Combinations, for additional information regarding these acquisitions and the measurement period adjustment recorded during the three months ended March 31, 2014. Changes in the carrying amounts of goodwill by reportable segment for the nine months ended September 30, 2014 were as follows:

(In thousands)	Clinical and Financial Solutions	Population Health	Managed Services	Total
Balance as of December 31, 2013	\$ 625,769	\$ 425,216	\$ 138,600	\$ 1,189,585
Additions arising from business acquisitions:				
Oasis	10,568	0	0	10,568
dbMotion	0	1,018	0	1,018
Total additions to goodwill	10,568	1,018	0	11,586
Impairment of goodwill	0	0	0	0
Foreign exchange translation	(520)	0	0	(520)
Balance as of September 30, 2014	\$ 635,817	\$ 426,234	\$ 138,600	\$ 1,200,651

There were no accumulated impairment losses associated with our goodwill as of September 30, 2014 or December 31, 2013.

**Table of Contents****7. Asset Impairment Charges**

In October 2012, we initiated a MyWay convergence program. Since that time, we have been upgrading those MyWay clients who have elected to upgrade to Professional Suite, at no additional cost to these clients. As a result, we recorded non-cash charges to earnings of approximately \$5.0 million during the three and nine months ended September 30, 2013, and \$0.2 million and \$0.7 million during the three and nine months ended September 30, 2014, which were related to the write-off of certain MyWay-related deferred costs, and which were determined to be unrealizable. During the nine months ended September 30, 2014, we also recorded \$1.4 million of non-cash capitalized software impairment charges as a result of our decision to discontinue several software development projects. During the three and nine months ended September 30, 2013, we also recorded non-cash charges of \$2.4 million and \$5.5 million, respectively, primarily related to product consolidation activities associated with the dbMotion acquisition.

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Asset impairment charges	\$ 188	\$ 7,371	\$ 2,134	\$ 10,504

**8. Debt**

Debt outstanding, excluding capital leases, consisted of the following:

(In thousands)	September 30, 2014			December 31, 2013		
	Principal Balance	Unamortized Discount	Net Carrying Amount	Principal Balance	Unamortized Discount	Net Carrying Amount
1.25% Cash Convertible Senior Notes	\$ 345,000	\$ 69,873	\$ 275,127	\$ 345,000	\$ 77,529	\$ 267,471
Senior Secured Credit Facilities (long-term portion)	289,054	1,662	287,392	280,000	2,338	277,662
Senior Secured Credit Facilities (current portion)	25,313	915	24,398	16,875	982	15,893
Total debt	\$ 659,367	\$ 72,450	\$ 586,917	\$ 641,875	\$ 80,849	\$ 561,026

Interest expense consisted of the following:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest expense	\$ 4,190	\$ 3,653	\$ 12,074	\$ 10,918
Amortization of discounts	2,842	2,732	8,400	3,055
Amortization of debt issuance costs	510	510	1,531	3,157
Write off of unamortized deferred debt issuance costs	0	0	0	3,901
Total interest expense	\$ 7,542	\$ 6,895	\$ 22,005	\$ 21,031

Interest expense related to the 1.25% Notes was comprised of the following:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Coupon interest at 1.25%	\$ 1,078	\$ 1,078	\$ 3,234	\$ 1,234
Amortization of original issuance discount	2,598	2,474	7,656	2,797
Amortization of debt issuance costs	295	295	885	344

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Total interest expense related to the 1.25% Notes	\$ 3,971	\$ 3,847	\$ 11,775	\$ 4,375
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There have been no significant changes in our senior secured credit facility agreement from those disclosed in our Form 10-K. As of September 30, 2014, the if-converted value of the 1.25% Notes did not exceed the 1.25% Notes principal amount.

As of September 30, 2014, \$208.1 million under a term loan, \$106.3 million under a revolving credit facility, and \$0.9 million in letters of credit were outstanding under our senior secured credit facility. As of September 30, 2014, the interest rate on the senior secured credit facility was LIBOR plus 2.75%, which totaled 2.90%. Refer to Note 10, Derivative Financial Instruments, for a discussion of our interest rate swap agreement. We were in compliance with all covenants under our senior secured credit facility agreement as of September 30, 2014. Unamortized deferred debt issuance costs total \$10.0 million and are included within other assets on the consolidated balance sheet as of September 30, 2014.



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As of September 30, 2014, we had \$317.3 million available, net of outstanding letters of credit, under our revolving credit facility. There can be no assurance that we will be able to draw on the full available balance of our senior secured credit facility if the financial institutions that have extended such credit commitments become unwilling or unable to fund such borrowings.

The following table summarizes our future principal payment obligations under the 1.25% Notes and the senior secured credit facility as of September 30, 2014:

(In thousands)	Total	Remainder of					Thereafter
		2014	2015	2016	2017	2018	
1.25% Cash Convertible Senior Notes (1)	\$ 345,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 345,000
Senior Secured Term Loan	\$ 208,125	5,625	28,125	39,375	50,625	84,375	0
Senior Secured Revolving Facility	\$ 106,242	0	0	0	0	106,242	0
	\$ 659,367	\$ 5,625	\$ 28,125	\$ 39,375	\$ 50,625	\$ 190,617	\$ 345,000

(1) Assumes no cash conversions of the 1.25% Notes prior to their maturity on July 1, 2020.

**9. Income Taxes**

The provision for income taxes reflects our estimate of the effective tax rate expected to be applicable for the full year. To the extent that actual pre-tax results for the year differ from the forecasted estimates applied at the end of the most recent interim period, the actual tax rate recognized during calendar 2014 could be different from the forecast rate. Our provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to valuation allowance, income attributable to foreign jurisdictions taxed at lower rates, state taxes, permanent differences, and certain discrete items. The effective tax rates were as follows:

(Dollar amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Loss before income taxes	(\$ 26,211)	(\$ 51,173)	(\$ 61,480)	(\$ 113,564)
Income tax benefit (provision)	\$ 448	\$ 2,233	(\$ 2,795)	\$ 30,156
Effective tax rate	1.7%	4.4%	(4.5%)	26.6%

Our effective tax rate for the three and nine months ended September 30, 2014 was lower compared with the prior year comparable periods primarily due to the impact of an approximately \$6.3 million and \$24.1 million valuation allowance recorded during the three and nine months ended September 30, 2014, respectively, against federal net operating loss and credit carryforwards. In addition, the U.S. research and development credit had not been extended as of September 30, 2014 for the 2014 tax year and, therefore, no estimate for this credit has been included in the effective tax rate as of September 30, 2014. The tax benefit recorded during the three and nine months ended September 30, 2013 included the impacts of both the 2012 and 2013 research and development credits.

In evaluating our ability to recover our deferred tax assets within the jurisdictions from which they arise, we consider all available evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies, and current year actual and projected results of operations. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income (loss). The additional valuation allowance recorded during the three and nine months ended September 30, 2014 related to deferred tax assets associated with net operating loss carryforwards.

Our unrecognized income tax benefits were \$15.4 million and \$18.3 million as of September 30, 2014 and December 31, 2013, respectively. The decrease was attributable to the timing of a tax deduction item taken in a prior period and a settlement with a taxing authority. If any portion of our unrecognized tax benefits is recognized, it could impact our effective tax rate. The tax reserves are reviewed periodically and adjusted in light of changing facts and circumstances, such as progress of tax audits, lapse of applicable statutes of limitations, and changes in tax law.



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**Table of Contents****10. Derivative Financial Instruments*****1.25% Call Option***

Concurrent with the issuance of the 1.25% Notes in June 2013, we entered into privately negotiated hedge transactions with certain of the initial purchasers of the 1.25% Notes (collectively, the 1.25% Call Option). Assuming full performance by the counterparties, the 1.25% Call Option is intended to offset cash payments in excess of the principal amount due upon any conversion of the 1.25% Notes.

The 1.25% Call Option, which is indexed to our common stock, is a derivative asset that requires mark-to-market accounting treatment due to the cash settlement features until the 1.25% Call Option settles or expires. The 1.25% Call Option is measured and reported at fair value on a recurring basis, within Level 3 of the fair value hierarchy. For further discussion of the inputs used to determine the fair value of the 1.25% Call Option, refer to Note 3, Fair Value Measurements. The fair value of the 1.25% Call Option at September 30, 2014 and December 31, 2013 was approximately \$67.7 million and \$104.7 million, respectively.

The 1.25% Call Option does not qualify for hedge accounting treatment. Therefore, the change in fair value of these instruments is recognized immediately in our consolidated statements of operations in other income, net. For the three and nine months ended September 30, 2014, the change in the fair value of the 1.25% Call Option resulted in net losses of \$35.4 million and \$37.0 million, respectively. For the three and nine months ended September 30, 2013 the change in the fair value of the 1.25% Call Option resulted in net gains of \$21.4 million and \$19.7 million, respectively. Because the terms of the 1.25% Call Option are substantially similar to those of the 1.25% Notes embedded cash conversion option, discussed below, we expect the net effect of those two derivative instruments on our earnings to be minimal.

***1.25% Notes Embedded Cash Conversion Option***

The embedded cash conversion option within the 1.25% Notes is required to be separated from the 1.25% Notes and accounted for separately as a derivative liability, with changes in fair value reported in our consolidated statements of operations in other income, net until the cash conversion option settles or expires. The initial fair value liability of the embedded cash conversion option was \$82.8 million, which simultaneously reduced the carrying value of the 1.25% Notes (effectively an original issuance discount). The embedded cash conversion option is measured and reported at fair value on a recurring basis, within Level 3 of the fair value hierarchy. For further discussion of the inputs used to determine the fair value of the embedded cash conversion option, refer to Note 3, Fair Value Measurements. The fair value of the embedded cash conversion option at September 30, 2014 and December 31, 2013 was approximately \$68.4 million and \$105.6 million, respectively. For the three and nine months ended September 30, 2014, the change in the fair value of the embedded cash conversion option resulted in net gains of \$35.6 million and \$37.2 million, respectively. For the three and nine months ended September 30, 2013, the change in the fair value of the embedded cash conversion option resulted in net losses of \$22.3 million and \$20.6 million, respectively. The net gains recognized for the three and nine months ended September 30, 2014 were slightly higher than the losses recognized on the 1.25% Call Option over the same periods.

***Interest Rate Swap Agreement***

We entered into an interest rate swap agreement with an effective date of October 29, 2010 that has the economic effect of modifying the variable rate component of the interest obligations associated with a portion of our variable rate debt. The initial notional amount of the interest rate swap agreement was \$300 million, with scheduled step downs over time, and an expiration date of October 31, 2014. As of September 30, 2014, the notional amount of the interest rate swap agreement was \$50 million. The interest rate swap agreement converts the one-month LIBOR rate on the corresponding notional amount of debt to an effective fixed rate of 0.896% (exclusive of the applicable margin currently charged under the Senior Secured Credit Facility). The critical terms of the interest rate swap agreement and the related debt agreement match and allow us to designate the interest rate swap agreement as a highly effective cash flow hedge under GAAP. The interest rate swap agreement is designed to protect us against changes in interest payments due to benchmark interest rate movements. The change in fair value of this interest rate swap agreement is recognized in other comprehensive (loss) income with the corresponding amounts included in other assets or other liabilities in our consolidated balance sheets. Amounts accumulated in other comprehensive (loss) income are indirectly recognized in earnings as periodic settlements of the swap occur and the fair value of the swap declines to zero as it nears expiration.

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The fair value of our interest rate swap was approximately zero and a liability of \$0.5 million as of September 30, 2014 and December 31, 2013, respectively. We recognized the following activity related to our interest rate swap agreement:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Effective portion</b>				
Current period increase in fair value recognized in other comprehensive (loss) income, net	\$ 110	\$ 207	\$ 427	\$ 856
Tax effect	(43)	(82)	(168)	(334)
Net	\$ 67	\$ 125	\$ 259	\$ 522
<b>Loss reclassified from accumulated other comprehensive loss to interest expense</b>				
Amount excluded from effectiveness assessment and ineffective gain (loss) recognized in other income (expense), net	\$ 0	\$ 0	\$ 0	\$ 0

The amount of interest rate swap derivative losses included in accumulated other comprehensive loss that will be reclassified into earnings during October 2014 is not material. No gains (losses) were reclassified from accumulated other comprehensive loss into earnings as a result of forecasted transactions that failed to occur during the three and nine months ended September 30, 2014 and 2013.

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### **11. Contingencies**

In addition to commitments and obligations in the ordinary course of business, we are currently subject to various legal proceedings and claims that have not been fully adjudicated, certain of which are discussed below. We intend to vigorously defend ourselves in these matters.

No less than quarterly, we review the status of each significant matter and assess our potential financial exposure. We accrue a liability for an estimated loss if the potential loss from any legal proceeding or claim is considered probable and the amount can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether the amount of an exposure is reasonably estimable, and accruals are based only on the information available to our management at the time the judgment is made.

The outcome of legal proceedings is inherently uncertain, and we may incur substantial defense costs and expenses defending any of these matters. If one or more of these legal proceedings were resolved against us in a reporting period for amounts in excess of our management's expectations, our consolidated financial statements for that reporting period could be materially adversely affected. Additionally, the resolution of a legal proceeding against us could prevent us from offering our products and services to current or prospective clients, which could further adversely affect our operating results.

In the opinion of our management, based on the information currently available, there was not at least a reasonable possibility that we may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to the following matters.

On September 14, 2010, Pegasus Imaging Corporation filed a complaint against us in the Circuit Court of the Thirteenth Judicial Circuit of the State of Florida in and for Hillsborough County, Florida, which we transferred to the Special Superior Court for Complex Business Cases. The lawsuit also named former officers Jeffrey Amrein and John Reinhart as defendants. The amended complaint added two defunct Florida corporations that did business with us, and asserted causes of action against defendants for fraudulent misrepresentations, negligent misrepresentations, and deceptive and unfair trade practices under Florida law, allegedly arising from previous business dealings between the plaintiff and Advanced Imaging Concepts, Inc., a software company that we acquired in August 2003, and from our testing of a software development toolkit pursuant to a free trial license from the plaintiff in approximately 1999. On April 16, 2013, the plaintiff filed a Second Amended Complaint adding claims against us for breach of contract, fraud, and negligence. On June 27, 2013, we filed our First Amended Answer, Defenses, and Counterclaims to the plaintiff's Second Amended Complaint, denying all material allegations, and asserting counterclaims against the plaintiff for breach of two license agreements, breach of warranty, breach of a settlement and arbitration agreement, and three counts of negligent misrepresentation. On July 7, 2014, the Court granted our motion for summary judgment on the plaintiff's claim of unfair trade practices under Florida law and our motion for summary judgment as to the aforementioned defunct corporations, and granted the plaintiff's motion for summary judgment on our counterclaims. No trial date has been scheduled.

On January 30, 2013, Costco Wholesale Corporation made a demand for arbitration against us with the International Institute for Conflict Resolution in connection with our offer to upgrade our MyWay clients to Professional Suite. The demand for arbitration seeks certain equitable relief in connection with the upgrade offer and also seeks damages for breach of contract and breach of an alleged duty of good faith and fair dealing. No arbitration date has been scheduled.

On February 26, 2013, a lawsuit was filed by Cardinal Health 200, LLC against us in the Court of Common Pleas for Franklin County, Ohio. The complaint seeks damages of no less than \$3,978,000 for alleged breaches of contract by us in connection with our offer to upgrade our MyWay clients to Professional Suite, as well as other equitable relief. The complaint alternatively seeks a declaration that we invalidly terminated our agreement with the plaintiff. The case is currently scheduled for trial in June 2015.

In the opinion of our management, based on the information currently available, there is a reasonable possibility that we may incur a material loss with respect to the following matters. However, it is not possible to estimate the possible loss or range of loss at this time. Our management will continue to evaluate the potential exposure related to these matters in future periods.

On May 1, 2012, Physicians Healthsource, Inc. filed a class action complaint in U.S. District Court for the Northern District of Illinois against us. The complaint alleges that on multiple occasions between July 2008 and December 2011, we or our agent sent advertisements by fax to the plaintiff and a class of similarly situated persons, without first receiving the recipients' express permission or invitation in violation of the Telephone Consumer Protection Act, 47 U.S.C. § 227 (the "TCPA"). The plaintiff seeks \$500 for each alleged violation of the TCPA; treble damages if the Court finds the violations to be willful, knowing or intentional; and injunctive and other relief. Discovery is proceeding. The plaintiff's deadline to file a motion for class certification is June 2015. No trial date has been scheduled.

On May 2, 2012, a lawsuit was filed in the United States District Court for the Northern District of Illinois against us; Glen Tullman, our former Chief Executive Officer; and William Davis, our former Chief Financial Officer, by the Bristol County Retirement System for itself and on

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behalf of a purported class consisting of stockholders who purchased our common stock between November 18, 2010 and April 26, 2012. The plaintiffs later added Lee Shapiro, our former President, as a defendant. The

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plaintiffs allege that we, Mr. Tullman, Mr. Davis and Mr. Shapiro made materially false and misleading statements and/or omissions during the putative class period regarding our progress in integrating our business with the business of Eclipsys Corporation following the two companies August 24, 2010 merger, and that we lacked a reasonable basis for certain statements regarding those post-merger integration efforts as well as our operations and results and projections of future financial performance. A fully-briefed motion to dismiss is pending. No trial date has been scheduled.

On June 27, 2012, a purported shareholder, Richard Devereaux, filed a shareholder derivative action in the Circuit Court of Cook County, Illinois against us; Glen Tullman, our former Chief Executive Officer; William Davis, our former Chief Financial Officer; Paul Black, our current Chief Executive Officer and a current member of the Board; and Dennis Chookaszian, Robert Cindrich, Marcel Gamache, Philip Green, and Michael Kluger, each of whom are or were members of the Board. The suit alleges breach of fiduciary duties and unjust enrichment against certain of our former and current executives who allegedly made misleading claims about our business and financial condition, which allegedly caused our stock price to be artificially inflated and then drop sharply when we reported earnings below expectations and disclosed a leadership dispute in a regulatory filing. The case is currently stayed by agreement of the parties.

On July 11, 2012, RLIS, Inc. filed a complaint in the United States District Court for the Southern District of Texas against us. The complaint alleges, among other things, that our Enterprise EHR product (now Allscripts Touchworks) willfully infringes U.S. Patent No. 7,076,436. On September 28, 2012, the plaintiff filed an amended complaint that alleges, among other things, that certain of our products and services infringe both the foregoing patent as well as U.S. Patent No. 5,823,940. The amended complaint seeks an unspecified amount of damages and interest, as well as injunctive relief. The case is currently scheduled for trial in March 2015.

On May 15, 2014, Medfusion, Inc. filed a complaint in the Superior Court of Wake County, North Carolina, against us. The complaint alleges, among other things, breach of contract, fraudulent inducement, fraud, and violation of North Carolina's unfair methods of competition and unfair or deceptive trade practices statutes by us in connection with a previous commercial agreement between the parties. The complaint seeks an unspecified amount of damages and interest. No trial date has been scheduled.

### ***Other Matters***

During the third quarter of 2014 and subsequently, we resolved a number of pending legal proceedings related to our offer to upgrade MyWay clients to Professional Suite. We paid approximately \$9.8 million in connection with the resolution of certain of these claims during the third quarter of 2014. In August 2014, we concluded our arbitration with Etransmedia Technology, Inc. In October 2014, we entered into a settlement agreement with Pain Clinic of Northwest Florida, Inc., American Pain Care Specialists, LLC, Advanced Pain Specialists, Inc., and South Baldwin Family Practice, LLC. A final hearing to approve the settlement agreement, which has been preliminarily approved by the court, is scheduled for February 2015.

## **12. Business Segments**

We primarily derive our revenue from sales of our proprietary software and related hardware, professional services and IT outsourcing services. These sales are also the basis for our recurring service contracts for software maintenance and certain transaction processing services. We revised our reportable segments effective December 1, 2013, in connection with changes to our organizational and management structure that were announced earlier in 2013. Prior to this change, we used five reportable segments: Software Delivery, Services Delivery, Client Support, Pathway Solutions and IT Outsourcing.

The changes to our organizational and management structure were aimed at improving our operational effectiveness, enhancing our competitiveness and creating a greater focus on client needs. These changes, which involved the creation of strategic business units, were designed to transition us towards a flatter business unit model aligned with key products and services, and away from a functional organization. After the finalization of these changes and based upon the information used by our Chief Operating Decision Maker (our CODM) for making operating decisions and assessing performance, we identified nine operating segments, which were aggregated into three reportable segments: Clinical and Financial Solutions, Population Health, and Managed Services.

The Clinical and Financial Solutions segment includes our Acute, TouchWorks, Professional Practices, Payer and Life Sciences, and International strategic business units. This segment derives its revenue from the sale of integrated clinical software applications, financial and information solutions, and related installation and maintenance services, to physician practices, hospitals and health systems of various sizes. These solutions primarily include Electronic Health Record-related software, financial and practice management software, related installation and training services, and electronic claims administration services. The Population Health segment includes our Performance and Care Logistics and Population Health strategic business units. This segment derives its revenue from the sale of health management solutions, which are mainly targeted at hospitals, health systems and Accountable Care Organizations, and which enable such organizations to connect, transition,

analyze, and coordinate care across the entire care community. The Managed Services segment includes our Outsourcing and Remote Hosting strategic business units. It derives its revenue from the sale of outsourcing solutions, where we assume partial to total responsibility for a healthcare



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organization's IT operations, and remote hosting solutions. The revenue from this segment are primarily reflected as part of transaction processing and other in our consolidated statements of operations. Segment data for prior periods presented in the table below has been restated to conform to the current year's presentation.

Our CODM uses segment revenue, gross profit and income from operations as measures of performance and to allocate resources. In determining revenue, gross profit and income from operations for our segments, we do not include in revenue the amortization of acquisition-related deferred revenue adjustments, which reflect the fair value adjustments to deferred revenue acquired in a business acquisition; and we exclude the amortization of intangible assets, stock-based compensation expense, non-recurring expenses and transaction-related costs, and non-cash asset impairment charges from the operating segment data provided to our CODM. Non-recurring expenses relate to certain severance, product consolidation, legal, consulting, and other charges incurred in connection with activities that are considered one-time. Accordingly, these amounts are not included in our reportable segment results and are included in an Unallocated Amounts category within our segment disclosure. The Unallocated Amounts category also includes corporate general and administrative expenses (including marketing expenses), which are centrally managed. In addition, the Unallocated Amounts category includes revenue and the associated cost from the resale of certain ancillary products, primarily consisting of hardware. We do not track our assets by segment.

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenue:</b>				
Clinical and Financial Solutions	\$ 207,207	\$ 208,554	\$ 627,075	\$ 647,035
Population Health	71,828	64,006	211,922	189,889
Managed Services	63,674	53,230	188,586	166,388
Unallocated Amounts	2,680	4,401	9,387	18,772
<b>Total revenue</b>	<b>\$ 345,389</b>	<b>\$ 330,191</b>	<b>\$ 1,036,970</b>	<b>\$ 1,022,084</b>
<b>Gross Profit:</b>				
Clinical and Financial Solutions	\$ 99,241	\$ 95,867	\$ 299,998	\$ 302,432
Population Health	46,975	45,728	143,548	126,069
Managed Services	1,048	4,161	12,861	16,437
Unallocated Amounts	(15,808)	(20,209)	(46,777)	(48,681)
<b>Total gross profit</b>	<b>\$ 131,456</b>	<b>\$ 125,547</b>	<b>\$ 409,630</b>	<b>\$ 396,257</b>
<b>Income (Loss) from operations:</b>				
Clinical and Financial Solutions	\$ 47,987	\$ 34,980	\$ 139,107	\$ 121,545
Population Health	26,950	30,240	77,349	74,824
Managed Services	1,048	4,161	12,861	16,437
Unallocated Amounts	(94,825)	(112,833)	(269,161)	(312,862)
<b>Total loss from operations</b>	<b>(\$ 18,840)</b>	<b>(\$ 43,452)</b>	<b>(\$ 39,844)</b>	<b>(\$ 100,056)</b>

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**13. North American Site Consolidation Plan**

On February 18, 2013, we announced a North American site consolidation plan (the Site Consolidation Plan ) designed to create a more simplified and efficient organization that is aligned more closely with our business priorities. The Site Consolidation Plan included the closing of twelve offices and one warehouse in conjunction with changes to our corporate operating models intended to reduce costs associated with product solutions development. The costs of implementing these changes primarily consist of employee severance and relocation costs.

During the three and nine months ended September 30, 2014, we recognized benefits of approximately \$0.1 million and \$2.2 million, respectively, due to the release of previously accrued severance costs which we no longer expect to pay; while during the three and nine months ended September 30, 2013, we incurred approximately \$3.4 million and \$17.2 million, respectively, in severance, retention bonuses and relocation expenses resulting from the Site Consolidation Plan. These amounts are included in selling, general and administrative expenses in our consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013, respectively, with the exception of \$1.9 million and \$2.6 million for the three and nine months ended September 30, 2013, respectively, which are included in research and development. The portion of these amounts allocable to our reportable segments is not material. In the first quarter of 2013, we established a liability for approximately \$11.2 million for severance costs resulting from the Site Consolidation Plan, of which approximately \$4.2 million remained as of December 31, 2013. During the nine months ended September 30, 2014, we paid approximately \$2.0 million and released approximately \$2.2 million of previously accrued severance costs, which we no longer expect to pay, resulting in no remaining liability as of September 30, 2014.

As of September 30, 2014, the Site Consolidation Plan was substantially completed and additional estimated costs yet to be incurred in connection with the Site Consolidation Plan, which primarily consist of lease-related costs, are not expected to be material.

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

*This Management's Discussion and Analysis of Financial Condition and Results of Operations section and other sections of this Quarterly Report on Form 10-Q ( Form 10-Q ) contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the current beliefs and expectations of our management and are subject to significant risks and uncertainties. Such statements can be identified by the use of words such as future, anticipates, believes, estimates, expects, intends, plans, predicts, will, would, could, can, may, and similar terms. Actual results could differ from those set forth in the forward-looking statements, and reported results should not be considered an indication of future performance. Certain factors that could cause our actual results to differ materially from those described in the forward-looking statements include, but are not limited to, those discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 (our Form 10-K ) under the heading Risk Factors, which are incorporated herein by reference. We do not undertake to update any forward-looking statements to reflect the impact of circumstances or events that may arise after the date of the forward-looking statements for any reason, except as required by law. The following discussion should be read along with the unaudited consolidated financial statements included in this Form 10-Q, as well as our Form 10-K filed with the Securities and Exchange Commission. Each of the terms we, us, or our as used herein refers collectively to Allscripts Healthcare Solutions, Inc. and its wholly-owned subsidiaries, unless otherwise stated.*

**Overview****Business Overview**

We are a global provider of clinical, financial, connectivity, hosting, outsourcing, analytics, patient engagement, and population health solutions and services that empower consumers, physicians, hospitals, governments, health systems, health plans, retail clinics, retail pharmacies and post-acute organizations to deliver world-class outcomes. We deliver innovative solutions that provide physicians and other healthcare professionals with the data, information, insights, and connectivity required to transform health care by improving the quality and efficiency of patient care and to navigate the transition from fee-for-service to value-based care.

Today, we believe we offer one of the most comprehensive solutions for healthcare organizations of every size and setting. By combining physician, hospital, health system, and post-acute care solutions with solutions for population health, healthcare organizations can manage patients and patient populations across all care settings. Healthcare organizations are increasingly challenged to manage risk, improve quality, and reduce costs. Our population health solutions are well positioned to address this challenge, combining a complete view of the patient across all settings of care with analytics and patient engagement solutions.

Population health management is a strategic imperative for many healthcare executives today and is a primary objective for many Accountable Care Organizations ( ACOs ). As healthcare providers and payers evolve from volume-based to value-based care delivery, interoperable population health management solutions that are connected to the consumer marketplace are the key to market leadership in the new healthcare reality. We have taken several significant steps to solidify and advance our population health management solutions, which include our acquisitions of dbMotion Ltd. ( dbMotion ), a leading supplier of community health solutions, and Jardogs LLC ( Jardogs ), the developer of Allscripts FollowMyHealth, a highly-rated, cloud-based patient engagement solutions provider in 2013. We also recently released our Allscripts Care Director solution, which helps healthcare organizations coordinate outpatient care across home care, physician practices, hospitals, post-acute care facilities, and community services. Taken together, these solutions are delivering value to our clients by providing them with powerful connectivity, patient engagement and care coordination tools, enabling users to better comply with the Meaningful Use program. Population health management is commonly viewed as the next frontier in healthcare delivery and we expect this rapidly emerging area to be a key driver of our future growth, both domestically and globally.

The healthcare IT industry in which we operate is facing significant challenges and opportunities due to new regulations and an evolution in industry standards. We believe a combination of changes in federal and state law, the development of new industry standards, and various incentives that exist today for Electronic Health Record ( EHR ) use, ePrescribing, and pay-for-quality initiatives, are moving health care towards an environment where EHRs are as common as practice management systems in all provider offices. As a result, we believe that the Health Information Technology for Economic and Clinical Health Act ( HITECH ) and other provisions provided by the American Recovery & Reinvestment Act, among other legislative changes, will continue to drive healthcare IT adoption, including products and solutions like ours. We also believe that we are well-positioned in the market to take advantage of the ongoing opportunity presented by these changes.

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HITECH authorized the EHR Incentive program, otherwise referred to as the Meaningful Use program, which provided significant incentives to physicians and hospitals that can prove they have adopted and are appropriately using technology, such as our EHR solutions. In order to qualify for HITECH funding under the current meaningful use criteria, including Stage 2 criteria, our clients are required to install and implement our products that are certified as having met various Meaningful Use requirements, by satisfying a variety of conditions outlined by the Centers for Medicare and Medicaid Services ( CMS ) in 2010, 2012 and future years. These Meaningful Use requirements are currently defined under the 2010 and 2012 Office of the National Coordinator for Health Information Technology ( ONC ) Final Rules and, in the future, under any additional HITECH regulations and guidance that ONC may release. The HITECH statute provides for a phased approach to implementation of the Meaningful Use standards, which the CMS Final Rules have specified to mean Stage 1 and Stage 2 (under way), with Stage 3 reserved for future rule-making based on the experiences to date but scheduled to begin, as finalized in September 2014, in 2017.

Given that CMS will release future regulations related to EHRs, our industry is presented with a challenge in preparing for compliance. Similarly, our ability to achieve product certification by the Certification Commission for Health Information Technology (which has announced it will be concluding its certification activities in 2014), the Drummond Group and/or other bodies to be accredited as certifying bodies, any changing frequency of the certification program, as first proposed by ONC in December 2013, and the length, if any, of additional related development and other efforts required to meet Meaningful Use standards, could materially impact our ability to maximize the market opportunity. All of our market-facing EHR solutions were certified 2011/2012 compliant, in accordance with the applicable provider or hospital certification criteria adopted by the Secretary of Health and Human Services. Each of our market-facing EHRs has also been certified as compliant with 2014 Edition requirements, as well as the Allscripts ED, Allscripts dbMotion and FollowMyHealth products under the modular certification option.

We believe that to date the HITECH program has resulted in additional related new orders for our EHR products. Large physician groups will continue to purchase EHR technology; however, the number of very large practices with over 100 physicians that have not yet acquired such technology is quickly decreasing. Such practices may choose to replace older EHR technology in the future as Meaningful Use or other regulatory requirements and business realities dictate the need for updates and upgrades, as well as additional features and functionality. Additionally, we have observed that a number of companies who certified their EHR products for Stage 1 have not been able to do so in compliance with the requirements for the 2014 Edition to date, which could present additional opportunities in the replacement market, particularly in the smaller physician space. As the incentive payments end in coming years, we expect that the payment adjustment phase of the program, which penalizes organizations not participating in the EHR Incentive program, will provide a different motivation for purchase and expansion, particularly among hospitals and the largest practices.

We have also seen an evolution of buying decisions toward an increase in local community-based buying activity whereby individual hospitals, health systems and integrated delivery networks are subsidizing the purchase of EHR licenses or related services for local, affiliated physicians and across their employed physician base as part of an offer to leverage buying power and help those practices take advantage of the HITECH incentives and other payment reform opportunities. This activity has also resulted in a pull-through effect where smaller practices affiliated with a community hospital are motivated to participate in the incentive program, while the subsidizing health system expands connectivity within the local provider community. We believe that the recent extension of the Stark and Anti-kickback exceptions, which allow hospitals and other organizations to subsidize the purchase of EHRs, will contribute to the continuation of this market dynamic. We also believe that the focus on new orders driven by the HITECH program and related to EHR and community-based activity will continue to remain steady as physicians in those small- and medium-sized practices who have not yet participated seek to qualify for the HITECH incentives for the first time or experienced practices upgrade in advance of their start of Stage 2 of the program, all before the penalties grow to as much as five percent of their Medicare reimbursement revenues. The associated challenge we face is to successfully position, sell, implement and support our products to the hospital, health system or integrated delivery network that is subsidizing its affiliated physicians. We believe the community programs we have in place will aid us in penetrating this market.

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

Additionally, other public laws to reform the U.S. healthcare system contain various provisions which may impact us and our clients. Some of these provisions may have a positive impact by requiring the expanded use of EHRs and analytics tools to participate in certain government programs, while others, such as those mandating reductions in reimbursement for certain types of providers, may have a negative impact by reducing the resources available to purchase our products. Increases in fraud and abuse enforcement and payment adjustments for non-participation in certain programs may also adversely affect participants in the healthcare sector, including us. Additionally, conversations will continue for the foreseeable future in the U.S. Congress around the Medicare Sustainable Growth Rate reimbursement model and possible replacement payment methodologies, which would further encourage the adoption of health IT in order to satisfy possible new requirements tying the report of quality measurements to the receipt of payment through Medicare. Resolution of this issue would also address current ambiguities among physician populations and healthcare organizations and allow them to make strategic decisions about the purchase of analytic

software or other solutions important to compliance with new legislation.

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The U.S. Department of Health and Human Services has implemented a new version of the standards for HIPAA-covered electronic transactions, including claims, remittance advices, and requests and responses for eligibility. These standards are called ANSI-5010. Additionally, HIPAA requires all entities who are covered by HIPAA to upgrade to the tenth revision of the International Statistical Classification of Diseases and Related Health Problems promulgated by the World Health Organization, also known as ICD-10, for use in reporting medical diagnoses and inpatient procedures by, based on a recent delay passed into law by Congress, no earlier than October 1, 2015. These changes in coding standards present a significant opportunity for our clients to get to the most advanced versions of our products, but they also pose a challenge due to the scale of the challenge for the industry, particularly among smaller independent physician practices who may not understand the scope of the efforts necessary to successfully transition to the ICD-10 classification. New payment and delivery system reform programs that have been launched related to the Medicare program are also increasingly being rolled out at the state level through Medicaid administrators, as well as through the private sector, presenting additional opportunity for us to provide software and services to our clients who participate.

We primarily derive our revenue from sales of our proprietary software and related hardware, professional services and IT outsourcing services. These sales are also the basis for our recurring service contracts for software maintenance and certain transaction processing services. We revised our reportable segments effective December 1, 2013 in connection with changes to our organizational and management structure that were announced earlier in 2013. Prior to this change, we had five reportable segments: Software Delivery, Services Delivery, Client Support, Pathway Solutions and IT Outsourcing.

The changes to our organizational and management structure were aimed at improving our operational effectiveness, enhancing our competitiveness and creating a greater focus on client needs. These changes, which involved the creation of strategic business units, were designed to transition us towards a flatter business unit model aligned with key products and services, and away from a functional organization. After the finalization of these changes and based upon the information used by our Chief Operating Decision Maker ( CODM ) for making operating decisions and assessing performance, we identified nine operating segments, which were aggregated into three reportable segments: Clinical and Financial Solutions, Population Health, and Managed Services.

**Critical Accounting Policies and Estimates**

There were no material changes to our critical accounting policies and estimates as previously disclosed in our Form 10-K.

***Third Quarter 2014 Summary***

During the third quarter of 2014, we continued to make progress on our key strategic and operational imperatives, which are aimed at delivering on our critical client obligations and expanding the depth and breadth of our products and platforms. We also maintained our focus on reducing expenses, with particular emphasis on our discretionary spending, as well as driving more sustainable and profitable recurring revenue streams. In addition, we continued to work toward expanding our business, particularly in the areas of population health management and consumer health care engagement, where we believe we currently offer some of the industry's leading solutions. During the third quarter of 2014 compared with the third quarter of 2013, gross margin percentage remained steady and our operating margin improved by approximately 8%, which was driven by approximately 7% decreases in both selling, general and administrative expenses as well as research and development expenses. We believe that our results during the third quarter of 2014 are indicative of improving operational efficiency and leverage as reflected in the decrease in the ratio of selling, general and administrative expenses as a percentage of revenue to 28% during the third quarter of 2014, when compared with a ratio of 32% during the third quarter of 2013.

Our bookings, which reflect the value of executed contracts for our solutions, totaled \$223 million for the third quarter of 2014, which is lower compared with bookings of \$234 million for the second quarter of 2014 and \$236 million for the third quarter of 2013. Bookings for the third quarter of 2013 included a significant agreement for expanded software and services with one of our large clients. The decrease in bookings on a sequential quarter basis was primarily due to a decline in bookings associated with certain Meaningful Use requirements. Approximately 39% of our total bookings for the third quarter of 2014 were related to subscription-based agreements compared with 40% for the third quarter of 2013.

Total revenue for the third quarter of 2014 was \$345 million compared with \$330 million for the third quarter of 2013. While our bookings for the nine months ended September 30, 2014 have increased when compared with bookings for the comparable period of 2013, revenue for the third quarter of 2014 does not reflect the full impact of the increase in bookings due in part to the timing of revenue recognition driven by the multi-year nature of new agreements, including an increase in the proportion of subscription-based arrangements and managed services contracts over the same time periods. Revenue associated with many of our managed services and population health management offerings is recognized over an extended period of time based on the contract period or subscription term.

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Selling, general and administrative expenses were \$97 million during the third quarter of 2014 compared with \$105 million during the third quarter of 2013, which represents a decrease of 7%. The primary drivers of the decrease in selling, general and administrative expenses were lower severance and other product consolidation costs, mostly associated with the Site Consolidation Plan and the MyWay convergence program, and lower transaction costs associated with the acquisitions of dbMotion and Jardogs. These decreases were partially offset by an approximately \$6 million charge recorded in the third quarter of 2014 associated with the resolution of certain outstanding legal proceedings.

Gross research and development spending in the third quarter of 2014 totaled \$56 million and consists of research and development expense of \$46 million and capitalized software development costs of \$10 million. This compares with gross research and development spending of \$60 million in the third quarter of 2013, consisting of research and development expense of \$49 million and capitalized software development costs of \$11 million. The decrease was primarily driven by accelerated spending on certain software development efforts during 2013, which were not replicated in 2014. We continue to focus our development efforts on improving performance, accelerating product integration, and building new innovative solutions, as well as ensuring our products will enable clients to achieve Meaningful Use standards and comply with other industry regulations.

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

Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
<b>Revenue:</b>						
System sales	\$ 21,440	\$ 26,498	(19.1%)	\$ 70,601	\$ 85,978	(17.9%)
Professional services	54,825	49,003	11.9%	167,563	169,293	(1.0%)
Maintenance	117,454	117,928	(0.4%)	348,111	351,840	(1.1%)
Transaction processing and other	151,670	136,762	10.9%	450,695	414,973	8.6%
<b>Total revenue</b>	<b>345,389</b>	<b>330,191</b>	<b>4.6%</b>	<b>1,036,970</b>	<b>1,022,084</b>	<b>1.5%</b>
<b>Cost of revenue:</b>						
System sales (excluding amortization of software development and acquisition-related assets shown below)	7,313	14,767	(50.5%)	25,921	41,176	(37.0%)
Amortization of software development and acquisition-related assets	20,582	23,006	(10.5%)	61,525	62,536	(1.6%)
Professional services	50,224	47,295	6.2%	146,767	162,278	(9.6%)
Maintenance	36,638	35,841	2.2%	111,123	107,864	3.0%
Transaction processing and other	99,176	83,735	18.4%	282,004	251,973	11.9%
<b>Total cost of revenue</b>	<b>213,933</b>	<b>204,644</b>	<b>4.5%</b>	<b>627,340</b>	<b>625,827</b>	<b>0.2%</b>
<b>Gross profit</b>	<b>131,456</b>	<b>125,547</b>	<b>4.7%</b>	<b>409,630</b>	<b>396,257</b>	<b>3.4%</b>
Gross margin %	38.1%	38.0%		39.5%	38.8%	
Selling, general and administrative expenses	97,034	104,506	(7.1%)	273,643	310,326	(11.8%)
Research and development	45,962	49,400	(7.0%)	151,283	151,881	(0.4%)
Asset impairment charges	188	7,371	(97.4%)	2,134	10,504	(79.7%)
Amortization of intangible and acquisition-related assets	7,112	7,722	(7.9%)	22,414	23,602	(5.0%)
Loss from operations	(18,840)	(43,452)	(56.6%)	(39,844)	(100,056)	(60.2%)
Interest expense	(7,542)	(6,895)	9.4%	(22,005)	(21,031)	4.6%
Other income (expense), net	171	(826)	(120.7%)	369	7,523	(95.1%)
Loss before income taxes	(26,211)	(51,173)	(48.8%)	(61,480)	(113,564)	(45.9%)
Income tax benefit (provision)	448	2,233	(79.9%)	(2,795)	30,156	(109.3%)
Effective tax rate	1.7%	4.4%		(4.5%)	26.6%	
Net loss	(\$ 25,763)	(\$ 48,940)	(47.4%)	(\$ 64,275)	(\$ 83,408)	(22.9%)



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

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
<b>Revenue:</b>						
System sales	\$ 21,440	\$ 26,498	(19.1%)	\$ 70,601	\$ 85,978	(17.9%)
Professional services	54,825	49,003	11.9%	167,563	169,293	(1.0%)
Maintenance	117,454	117,928	(0.4%)	348,111	351,840	(1.1%)
Transaction processing and other	151,670	136,762	10.9%	450,695	414,973	8.6%
<b>Total revenue</b>	<b>\$ 345,389</b>	<b>\$ 330,191</b>	<b>4.6%</b>	<b>1,036,970</b>	<b>1,022,084</b>	<b>1.5%</b>

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

System sales decreased during the three and nine months ended September 30, 2014 compared with the prior year comparable periods primarily due to decreases in hardware revenue of \$5 million and \$8 million, respectively. Software revenue during the nine months ended September 30, 2014 also decreased \$7 million compared with the prior year comparable period and was relatively flat in the third quarter of 2014 as compared with the third quarter of 2013, as a shift towards subscription-based agreements continued. Hardware revenue is frequently recognized in the period of sale and, therefore, is primarily driven by the level of bookings. While our total bookings during the nine months ended September 30, 2014 were higher compared with our total bookings during the prior year comparable period, a higher proportion of our bookings during 2014 was represented by sales of managed services offerings and population health management products and solutions, which historically do not include robust hardware solutions. In addition, revenue associated with many of our managed services and population health management offerings is recognized over an extended period of time based on the contract period or subscription term and is included in transaction processing and other. As a result, the overall increase in bookings did not result in significant additional software revenue.

Professional services revenue increased during the three months ended September 30, 2014 and decreased during the nine months ended September 30, 2014 compared with the prior year comparable periods. The variability in professional services revenue is primarily due to the timing of implementation services revenue recognition associated with several large contracts in the first quarter of 2013 and the second quarter of 2014, as we achieved key delivery milestones. In addition, we experienced a decrease in overall implementation services due to a higher bookings mix of subscription-based population health management products and solutions, which generally require lower levels of professional services to implement, when compared with our ambulatory and acute products and solutions.

Maintenance revenue was essentially flat during the three and nine months ended September 30, 2014 compared with the prior year comparable periods primarily due to a stable overall maintenance base and to our clients continuing to shift from perpetual license agreements, which have separate maintenance contracts, to subscription-based arrangements for new software purchases, the revenues from which are included in transaction processing and other.

Transaction processing and other revenue increased during the three and nine months ended September 30, 2014 compared with the prior year comparable periods. This increase was primarily driven by higher revenue from subscription-based services as we expanded our customer base for population health management products and solutions, as well as for IT outsourcing and remote hosting solutions.

**Gross Profit**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Total cost of revenue	\$ 213,933	\$ 204,644	4.5%	\$ 627,340	\$ 625,827	0.2%
Gross profit	\$ 131,456	\$ 125,547	4.7%	\$ 409,630	\$ 396,257	3.4%
Gross margin %	38.1%	38.0%		39.5%	38.8%	

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

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Gross profit increased during the three and nine months ended September 30, 2014 compared with the prior year comparable periods, primarily due to increases in gross profit from system sales, professional services and transaction processing and other services. Gross profit associated with system sales increased as a result of decreases in lower-margin hardware sales, the cost of third-party software sales and the amortization of capitalized software development costs and acquisition-related intangible assets. The increase in professional services gross profit was primarily driven by lower overall utilization of third-party resources to deliver these services. Gross profit from transaction processing and other services increased driven by higher subscription-based revenue and relatively steady operating leverage. Maintenance gross profit decreased primarily due to higher third-party costs while revenue remained essentially flat.

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Gross margin percentage remained relatively unchanged during the three and nine months ended September 30, 2014 compared with the prior year comparable periods as improved profitability resulting from lower overall utilization of third-party resources and favorable mix of hardware and third-party software sales was largely offset by increased infrastructure investment and IT service costs in response to increased demand for our subscription-based and hosting solutions. In addition, gross profit and gross margin percentage for the three and nine months ended September 30, 2014 include the impact of an approximately \$5 million non-recurring charge related to previously deferred third-party costs within our outsourcing business recorded during the three months ended September 30, 2014.

**Selling, General and Administrative Expenses**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Selling, general and administrative expenses	\$ 97,034	\$ 104,506	(7.1%)	\$ 273,643	\$ 310,326	(11.8%)

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

During the three and nine months ended September 30, 2014, selling, general and administrative expenses decreased compared with the prior year comparable periods. Significant decreases during the three and nine months ended September 30, 2014, when compared with the prior year comparable periods, were primarily due to reduced severance and other product consolidation costs, mostly associated with the Site Consolidation Plan and the MyWay convergence program, of approximately \$10 million and \$31 million, respectively; and reduced transaction costs associated with the acquisitions of dbMotion and Jardogs of approximately \$1 million and \$3 million, respectively. The decreases in selling, general and administrative expenses during the three and nine months ended September 30, 2014 were partially offset by higher stock-based compensation, which increased approximately \$1 million and \$4 million, respectively, and additional selling, general and administrative expenses related to our acquisitions of dbMotion, Jardogs and Oasis, which increased expenses by approximately \$1 million and \$3 million, respectively, when compared to the prior year comparable periods. In addition, legal expenses increased by approximately \$7 million during the three and nine months ended September 30, 2014 compared with the prior year comparable periods, primarily driven by an approximately \$6 million charge associated with the resolution of certain outstanding legal proceedings. The remainder of the decreases in selling, general and administrative expenses during the three and nine months ended September 30, 2014 as compared with the prior year comparable periods were primarily the result of lower personnel costs and discretionary spending as a result of actions in 2013 to consolidate locations and streamline operations.

**Research and Development**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Research and development	\$ 45,962	\$ 49,400	(7.0%)	\$ 151,283	\$ 151,881	(0.4%)

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

Research and development expenses decreased during the three and nine months ended September 30, 2014 compared with the prior year comparable periods as lower total research and development spending was partially offset by a lower amount of capitalized software development costs in the current year periods. During the prior year periods, we incurred higher personnel-related expenses as we temporarily increased headcount in order to accelerate development efforts, which included efforts to meet client demand for products that enabled them to achieve Meaningful Use standards and comply with other regulatory requirements. During the nine months ended September 30, 2014, we continued to invest in strategic research and development projects aimed at improving product performance, integration and innovation. The capitalization of software development costs is highly dependent on the nature of the work being performed and the development status of projects, and, therefore, it is not uncommon for the quarterly amount of capitalized software development costs to fluctuate.

**Asset Impairment Charges**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Asset impairment charges	\$ 188	\$ 7,371	(97.4%)	\$ 2,134	\$ 10,504	(79.7%)

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*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

In October of 2012, we initiated a MyWay convergence program. Since that time, we have been upgrading those MyWay clients who have elected to upgrade to Professional Suite, at no additional cost to these clients. As a result, we recorded non-cash

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charges to earnings of approximately \$5.0 million during the three and nine months ended September 30, 2013 and \$0.2 million and \$0.7 million during the three and nine months ended September 30, 2014, respectively, related to the write-off of certain deferred costs relating to MyWay, which were determined to be unrealizable. During the nine months ended September 30, 2014, we also recorded \$1.4 million of non-cash capitalized software impairment charges as a result of our decision to discontinue several software development projects. In addition, during the three and nine months ended September 30, 2013, we recorded non-cash charges of \$2.4 million and \$5.5 million, respectively, primarily related to product consolidation activities associated with the dbMotion acquisition.

**Amortization of Intangible Assets**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Amortization of intangible and acquisition-related assets	\$ 7,112	\$ 7,722	(7.9%)	\$ 22,414	\$ 23,602	(5.0%)

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

Amortization of intangible and acquisition-related assets recognized during the three and nine months ended September 30, 2014 decreased compared with the prior year comparable periods. During the three months ended September 30, 2013, the amortization periods for certain intangible assets ended and the intangible asset amounts were fully amortized. As a result, the first nine months of 2013 include amortization that did not recur during the first nine months of 2014. This impact was partially offset by additional amortization associated with the intangible assets acquired through the dbMotion, Jardogs and Oasis acquisitions.

**Interest Expense**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Interest expense	(\$ 7,542)	(\$ 6,895)	9.4%	(\$ 22,005)	(\$ 21,031)	4.6%

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

Interest expense increased during the three and nine months ended September 30, 2014 compared with the prior year comparable periods primarily due to higher accretion to interest expense of the original issue discount associated with the 1.25% Notes and higher interest cost related to our senior secured credit facility. These increases were partially offset by the write-off of approximately \$3.9 million of deferred debt issuance costs associated with our previous senior secured credit facilities during the second quarter of 2013 and higher amortization of debt issuance costs during the nine months ended September 30, 2013, when compared with the current year comparable period.

**Other Income (Expense), Net**

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Other income (expense), net	\$ 171	(\$ 826)	(120.7%)	\$ 369	\$ 7,523	(95.1%)

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

Other income, net for the nine months ended September 30, 2013 includes a gain of approximately \$5 million resulting from the sale of our investment in Humedica, Inc. and a gain of approximately \$3 million realized upon the adjustment to fair value of our prior interest in dbMotion upon our acquisition of the full remaining interest in dbMotion in March 2013.

**Income Tax (Provision) Benefit**

Three Months Ended September 30,

Nine Months Ended September 30,

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(Dollar amounts in thousands)	2014	2013	% Change	2014	2013	% Change
Income tax benefit (provision)	\$ 448	\$ 2,233	(79.9%)	(\$ 2,795)	\$ 30,156	(109.3%)
Effective tax rate	1.7%	4.4%		(4.5%)	26.6%	

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*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

Our effective tax rate for the three and nine months ended September 30, 2014 was lower compared with the prior year comparable periods primarily due to the impact of an approximately \$6.3 million and \$24.1 million valuation allowance recorded during the three and nine months ended September 30, 2014, respectively, against federal net operating loss and credit carryforwards. In addition, the U.S. research and development credit had not been extended as of September 30, 2014 for the 2014 tax year and, therefore, no estimate for this credit has been included in the effective tax rate as of September 30, 2014. The tax benefit recorded during the three and nine months ended September 30, 2013 included the impacts of both the 2012 and 2013 research and development credits.

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

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
<b>Revenue:</b>						
Clinical and Financial Solutions	\$ 207,207	\$ 208,554	(0.6%)	\$ 627,075	\$ 647,035	(3.1%)
Population Health	71,828	64,006	12.2%	211,922	189,889	11.6%
Managed Services	63,674	53,230	19.6%	188,586	166,388	13.3%
Unallocated Amounts	2,680	4,401	(39.1%)	9,387	18,772	(50.0%)
<b>Total revenue</b>	<b>\$ 345,389</b>	<b>\$ 330,191</b>	<b>4.6%</b>	<b>\$ 1,036,970</b>	<b>\$ 1,022,084</b>	<b>1.5%</b>
<b>Gross Profit:</b>						
Clinical and Financial Solutions	\$ 99,241	\$ 95,867	3.5%	\$ 299,998	\$ 302,432	(0.8%)
Population Health	46,975	45,728	2.7%	143,548	126,069	13.9%
Managed Services	1,048	4,161	(74.8%)	12,861	16,437	(21.8%)
Unallocated Amounts	(15,808)	(20,209)	(21.8%)	(46,777)	(48,681)	(3.9%)
<b>Total gross profit</b>	<b>\$ 131,456</b>	<b>\$ 125,547</b>	<b>4.7%</b>	<b>\$ 409,630</b>	<b>\$ 396,257</b>	<b>3.4%</b>
<b>Income (loss) from operations:</b>						
Clinical and Financial Solutions	\$ 47,987	\$ 34,980	37.2%	\$ 139,107	\$ 121,545	14.4%
Population Health	26,950	30,240	(10.9%)	77,349	74,824	3.4%
Managed Services	1,048	4,161	(74.8%)	12,861	16,437	(21.8%)
Unallocated Amounts	(94,825)	(112,833)	(16.0%)	(269,161)	(312,862)	(14.0%)
<b>Total loss from operations</b>	<b>(\$ 18,840)</b>	<b>(\$ 43,452)</b>	<b>(56.6%)</b>	<b>(\$ 39,844)</b>	<b>(\$ 100,056)</b>	<b>(60.2%)</b>

**Clinical and Financial Solutions**

Our Clinical and Financial Solutions segment derives its revenue from the sale of integrated clinical software applications, financial and information solutions, and related installation and maintenance services, to physician practices, hospitals and health systems of various sizes. These solutions primarily include EHR-related software, financial and practice management software, related installation and training services, and electronic claims administration services.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Revenue	\$ 207,207	\$ 208,554	(0.6%)	\$ 627,075	\$ 647,035	(3.1%)
Gross profit	\$ 99,241	\$ 95,867	3.5%	\$ 299,998	\$ 302,432	(0.8%)
Gross margin %	47.9%	46.0%		47.8%	46.7%	
Income from operations	\$ 47,987	\$ 34,980	37.2%	\$ 139,107	\$ 121,545	14.4%
Operating margin %	23.2%	16.8%		22.2%	18.8%	

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

Clinical and Financial Solutions revenue decreased during the three and nine months ended September 30, 2014 compared with the prior comparable periods as decreases in revenue from system sales, professional services and maintenance were partially offset by an increase in transaction processing and other revenue. System sales, professional services and maintenance revenue decreased primarily as a result of the continued shift towards a recurring, subscription-based revenue model. We also experienced a decrease in implementation services driven by fewer upgrades and net new implementations of our ambulatory and acute products. Transaction processing and other revenue for the Clinical and Financial Solutions segment increased, reflecting an increasing share of subscription-based revenue.



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Gross profit and gross margin percentage remained relatively steady during the three and nine months ended September 30, 2014 compared with the prior year comparable periods, primarily due to our continued lower usage of third-party resources, which typically have higher labor rates. Operating margin improved as our selling, general and administrative expenses decreased, primarily as a result of lower personnel costs. Our research and development expenses were also lower compared to the prior year comparable periods as we continued to rebalance our spending across our various business units in line with our strategic objectives and the maturity of our product offerings.

**Table of Contents****Population Health**

Our Population Health segment derives its revenue from the sale of health management solutions, which are mainly targeted at hospitals, health systems and ACOs, and which enable such organizations to connect, transition, analyze, and coordinate care across the entire care community.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Revenue	\$ 71,828	\$ 64,006	12.2%	\$ 211,922	\$ 189,889	11.6%
Gross profit	\$ 46,975	\$ 45,728	2.7%	\$ 143,548	\$ 126,069	13.9%
Gross margin %	65.4%	71.4%		67.7%	66.4%	
Income from operations	\$ 26,950	\$ 30,240	(10.9%)	\$ 77,349	\$ 74,824	3.4%
Operating margin %	37.5%	47.2%		36.5%	39.4%	

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

Population Health revenue increased during the three and nine months ended September 30, 2014 compared with the prior year comparable periods as increases in revenue from professional services, maintenance and transaction processing and other were partially offset by a decrease in system sales. The increase in revenue during the third quarter of 2014 compared with the third quarter of 2013 was primarily due to increased demand for our population health management products and solutions. The increase in revenue during the nine months ended September 30, 2014 compared with the prior year comparable period was primarily due to our acquisitions of dbMotion and Jardogs in March 2013. The decrease in system sales was due to a larger mix of subscription-based products sold in the current year compared with prior year.

Gross profit increased during the three and nine months ended September 30, 2014 compared with the prior year comparable periods, reflecting the increase in revenue. The gross margin percentage decreased during the third quarter of 2014 compared with the third quarter of 2013, primarily due to higher third-party and internal resources costs to meet increased demand for installation services during the current quarter. The increase in gross margin percentage during the nine months ended September 30, 2014, when compared with the prior year comparable period, reflects the full profitability from sales of dbMotion's community health solutions, which were sold prior to our acquisition of dbMotion in March 2013. Operating margin decreased during the three and nine months ended September 30, 2014 due to higher selling, general and administrative expenses, as well as higher research and development expenses, when compared with the prior year comparable periods.

**Managed Services**

Our Managed Services segment derives its revenue from the sale of outsourcing solutions, where we assume partial to total responsibility for a healthcare organization's IT operations, and remote hosting solutions. The revenue from this segment is reflected in the transaction processing and other line in our consolidated statements of operations. All of the costs associated with this segment are included in cost of revenue.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Revenue	\$ 63,674	\$ 53,230	19.6%	\$ 188,586	\$ 166,388	13.3%
Gross profit	\$ 1,048	\$ 4,161	(74.8%)	\$ 12,861	\$ 16,437	(21.8%)
Gross margin %	1.6%	7.8%		6.8%	9.9%	
Income from operations	\$ 1,048	\$ 4,161	(74.8%)	\$ 12,861	\$ 16,437	(21.8%)
Operating margin %	1.6%	7.8%		6.8%	9.9%	

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

Managed Services revenue increased during the three and nine months ended September 30, 2014 compared with the prior year comparable periods. These increases were primarily due to additional revenue associated with expanding our IT outsourcing services at several of our large clients. Bookings for the Managed Services segment also increased during the nine months ended September 30, 2014 compared with the prior year comparable period as we signed new IT outsourcing and remote hosting agreements. Revenue related to managed services agreements is recognized as services are performed and, therefore, bookings are reflected in revenue over multiple future quarters.



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The overall profitability of the Managed Services segment declined during the three and nine months ended September 30, 2014, when compared with the prior year comparable periods, as both our internal labor costs and the costs of third-party outsourcing services remained high relative to revenue as we continued to respond to increased demand for our IT outsourcing and remote hosting solutions. The increase in costs was partially due to an approximately \$5 million non-recurring charge related to previously deferred third-party costs within our outsourcing business recorded during the three months ended September 30, 2014. Additionally, we experienced an increase in infrastructure maintenance and IT service costs related to remote hosting client contracts primarily driven by incremental expenses to improve our remote hosting solutions and expand our remote hosting operations into a new facility.

**Unallocated Amounts**

In determining revenue, gross profit and income from operations for our segments, we do not include in revenue the amortization of acquisition-related deferred revenue adjustments, which reflect the fair value adjustments to deferred revenue acquired in a business acquisition; and we exclude the amortization of intangible assets, stock-based compensation, non-recurring expenses and transaction-related costs, and non-cash asset impairment charges from the operating segment data provided to our CODM. Non-recurring expenses relate to certain severance, product consolidation, legal, consulting, and other charges incurred in connection with activities that are considered one-time. Accordingly, these amounts are not allocated to our reportable segments because they are not part of the operating segment data provided to our CODM and are included in the Unallocated Amounts category. The Unallocated Amounts category also includes corporate general and administrative expenses (including marketing expenses), which are centrally managed. In addition, the Unallocated Amounts category includes revenue and the associated cost from the resale of certain ancillary products, primarily consisting of hardware.

(Dollar amounts in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Revenue	\$ 2,680	\$ 4,401	(39.1%)	\$ 9,387	\$ 18,772	(50.0%)
Gross profit	(\$ 15,808)	(\$ 20,209)	(21.8%)	(\$ 46,777)	(\$ 48,681)	(3.9%)
Gross margin %	NM	NM		NM	NM	
Income from operations	(\$ 94,825)	(\$ 112,833)	(16.0%)	(\$ 269,161)	(\$ 312,862)	(14.0%)
Operating margin %	NM	NM		NM	NM	

NM We define NM as not meaningful for increases or decreases greater than 200%.

*Three and Nine Months Ended September 30, 2014 Compared with the Three and Nine Months Ended September 30, 2013*

During the three and nine months ended September 30, 2014, revenue decreased compared with the prior year comparable periods, due to lower hardware sales. Hardware sales were lower primarily as a result of a higher proportion of our current year bookings being represented by managed services offerings and population health management products and solutions, which historically do not include robust hardware solutions. Deferred revenue-related and other adjustments, primarily associated with the dbMotion acquisition, were lower during the three months ended September 30, 2014 and higher during the nine months ended September 30, 2014, when compared with the prior year comparable periods.

Unallocated expenses decreased by approximately \$18 million during the three months ended September 30, 2014, compared with the prior year comparable period, primarily due to decreases in severance and other product consolidation costs, including those associated with the Site Consolidation Plan and the MyWay convergence program, of approximately \$5 million; non-cash asset impairment charges of approximately \$7 million; transaction-related costs, which were mostly related to the dbMotion acquisition, of approximately \$1 million; amortization of intangible assets of approximately \$3 million; facility costs of approximately \$1 million; marketing expenses of approximately \$1 million; and deferred revenue-related and other adjustments of approximately \$2 million.

Unallocated expenses decreased by approximately \$44 million during the nine months ended September 30, 2014, compared with the prior year comparable period, primarily due to decreases in severance and other product consolidation costs, including those associated with the Site Consolidation Plan and the MyWay convergence program, of approximately \$25 million; non-cash asset impairment charges of approximately \$8 million; transaction-related costs, which were mostly related to the dbMotion acquisition, of approximately \$6 million; amortization of intangible assets of approximately \$5 million; bad debt expense of approximately \$4 million; and professional services expenses of approximately \$2 million. Partially offsetting these decreases were higher stock-based compensation of approximately \$4 million and deferred revenue-related and other adjustments of approximately \$2 million.



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

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

(Dollar amounts in millions)	As of	As of	As of	% Change from September 30, 2014	
	September 30, 2014	December 31, 2013	September 30, 2013	December 31, 2013	September 30, 2013
Contract backlog:					
System sales	\$ 155	\$ 129	\$ 100	20.2%	55.0%
Professional services	234	378	378	(38.1%)	(38.1%)
Maintenance	852	827	831	3.0%	2.5%
Transaction processing and other	2,174	2,073	2,002	4.9%	8.6%
Total contract backlog	\$ 3,415	\$ 3,407	\$ 3,311	0.2%	3.1%

Total contract backlog as of September 30, 2014 was higher compared with September 30, 2013, primarily due to an increase in transaction processing and other services, driven by an increase in the proportion of subscription-based arrangements and managed services contracts. Total contract backlog can fluctuate between periods based on the level of revenue and bookings as well as the timing of renewal activity and periodic revalidations.

**Bookings**

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

(Dollar amounts in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Bookings	\$ 233	\$ 236	(5.5%)	\$ 680	\$ 628	8.3%

Bookings were lower for the three months ended September 30, 2014, and increased for the nine months ended September 30, 2014, compared with the prior year comparable periods. Bookings for the third quarter of 2013 included a significant agreement for expanded software and services with one of our large clients. Bookings were lower on a sequential quarter basis primarily due to a decline in bookings associated with certain Meaningful Use requirements. The increase in bookings for the nine months ended September 30, 2014 was primarily driven by higher bookings related to our population health management products and solutions, and managed services offerings, and reflects demand across our installed base as well as from new domestic and international clients. We attribute this improvement in our bookings for the nine months ended September 30, 2014 largely to our continued focus on delivering on our critical client obligations, including improved product performance and integration, as well as delivery execution.

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

As of September 30, 2014, our principal sources of liquidity consisted of cash, cash equivalents and marketable securities of approximately \$39 million and our senior secured credit facility. The change in our cash and cash equivalents balance is reflective of the following:

**Operating Cash Flow Activities**

(Dollar amounts in thousands)	Nine Months Ended September 30,		
	2014	2013	\$ Change
Net loss	(\$ 64,275)	(\$ 83,408)	\$ 19,133
Non-cash adjustments to net loss	172,847	134,341	38,506
Cash impact of changes in operating assets and liabilities	(56,569)	12,378	(68,947)
Net cash provided by operating activities	\$ 52,003	\$ 63,311	(\$ 11,308)

*Nine Months Ended September 30, 2014 Compared with the Nine Months Ended September 30, 2013*

Net cash provided by operating activities decreased by approximately \$11 million during the nine months ended September 30, 2014 compared with the prior year comparable period. This decrease was primarily driven by higher commission and bonus payments during the nine months ended September 30, 2014, partially offset by higher integration services spending associated with the MyWay convergence program during the nine months ended September 30, 2013. The higher commission payments were due to the higher bookings for the nine months ended September 30, 2014 compared with the prior year comparable period. In addition, during the nine months ended September 30, 2014, we paid approximately \$10 million in connection with the resolution of claims related to our offer to upgrade MyWay clients to Professional Suite.

**Investing Cash Flow Activities**

(Dollar amounts in thousands)	Nine Months Ended September 30,		
	2014	2013	\$ Change
Capital expenditures	(\$ 20,656)	(\$ 56,988)	\$ 36,332
Capitalized software	(28,318)	(30,462)	2,144
Cash paid for business acquisitions, net of cash acquired	(20,180)	(148,875)	128,695
Purchases of marketable securities, other investments and related intangible assets	(21,544)	0	(21,544)
Sales and maturities of other investments	39	12,855	(12,816)
Proceeds received from sale of fixed assets	86	0	86
Net cash used in investing activities	(\$ 90,573)	(\$ 223,470)	\$ 132,897

*Nine Months Ended September 30, 2014 Compared with the Nine Months Ended September 30, 2013*

Net cash used in investing activities decreased during the nine months ended September 30, 2014 compared with the prior year comparable period, primarily due to lower cash outflows for business acquisitions and capital spending. During the nine months ended September 30, 2014, we acquired Oasis for approximately \$20 million; while during the nine months ended September 30, 2013, we paid approximately \$163 million, less \$14 million of cash acquired from dbMotion, as part of the overall purchase considerations for dbMotion and Jardogs. In addition, during the nine months ended September 30, 2014, we acquired certain non-marketable equity securities issued by four separate third parties for total cash consideration of approximately \$21 million; while during the nine months ended September 30, 2013, we received cash proceeds of approximately \$12 million from the sale of our investment in Humedica, Inc. The decrease in capital spending is primarily driven by lower expenditures related to our information systems infrastructure as we completed the upgrade to our integrated enterprise resource planning ( ERP ) system in the third quarter of 2013.





**Table of Contents****Financing Cash Flow Activities**

(Dollar amounts in thousands)	Nine Months Ended September 30,		
	2014	2013	\$ Change
Proceeds from issuance 1.25% senior cash convertible notes, net of issuance costs	\$ 0	\$ 336,962	(\$ 336,962)
Purchase of call option related to 1.25% senior cash convertible notes	0	(82,800)	82,800
Proceeds from issuance of warrants, net of issuance costs	0	51,208	(51,208)
Proceeds from issuance of common stock	1,670	11,256	(9,586)
Excess tax benefits from stock-based compensation	2,246	3,296	(1,050)
Taxes paid related to net share settlement of equity awards	(8,891)	(7,884)	(1,007)
Payments of capital lease obligations	(337)	(416)	79
Payments of acquisition financing obligations	0	(29,671)	29,671
Credit facility payments	(73,751)	(574,281)	500,530
Credit facility borrowings, net of issuance costs	91,964	410,983	(319,019)
<b>Net cash provided by financing activities</b>	<b>\$ 12,901</b>	<b>\$ 118,653</b>	<b>(\$ 105,752)</b>

*Nine Months Ended September 30, 2014 Compared with the Nine Months Ended September 30, 2013*

Net cash provided by financing activities decreased during the nine months ended September 30, 2014 compared with the prior year comparable period, primarily due to borrowings under our prior revolving credit facility during the first quarter of 2013 to fund a portion of the cash consideration paid for the acquisitions of dbMotion and Jardogs. During the second quarter of 2013, we completed two significant financing initiatives consisting of the issuance of the 1.25% Notes and the refinancing of our senior secured credit facility. The net proceeds from the issuance of the 1.25% Notes, including the related cash flows from the purchase of the 1.25% Call Option and the issuance of warrants, were substantially used to fund the net reduction in our prior credit facility borrowings as well as the funding of our acquisition financing obligations arising from our purchase of dbMotion. During the nine months ended September 30, 2014, we borrowed approximately \$18 million in net proceeds under our senior secured credit facility, primarily to finance our acquisition of Oasis.

**Table of Contents****Future Capital Requirements**

The following table summarizes our future payments under the 1.25% Notes and our senior secured credit facilities as of September 30, 2014:

(Dollar amounts in thousands)	Total	Remainder of 2014	2015	2016	2017	2018	2019	Thereafter
<b>Principal payments:</b>								
1.25% Cash Convertible Senior Notes (1)	\$ 345,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 345,000
Senior Secured Credit Facilities	314,367	5,625	28,125	39,375	50,625	190,617	0	0
<b>Total principal payments</b>	<b>659,367</b>	<b>5,625</b>	<b>28,125</b>	<b>39,375</b>	<b>50,625</b>	<b>190,617</b>	<b>0</b>	<b>345,000</b>
<b>Interest payments:</b>								
1.25% Cash Convertible Senior Notes (1)	25,877	2,156	4,313	4,313	4,313	4,313	4,313	2,156
Senior Secured Credit Facilities (2)	35,997	5,384	10,126	9,187	7,921	3,379	0	0
<b>Total interest payments</b>	<b>61,874</b>	<b>7,540</b>	<b>14,439</b>	<b>13,500</b>	<b>12,234</b>	<b>7,692</b>	<b>4,313</b>	<b>2,156</b>
<b>Total future debt payments</b>	<b>\$ 721,241</b>	<b>\$ 13,165</b>	<b>\$ 42,564</b>	<b>\$ 52,875</b>	<b>\$ 62,859</b>	<b>\$ 198,309</b>	<b>\$ 4,313</b>	<b>\$ 347,156</b>

(1) Assumes no cash conversions of the 1.25% Notes prior to their maturity on July 1, 2020.

(2) Assumes LIBOR plus the applicable margin remain constant at the rate in effect on September 30, 2014, which was 2.90%. Also includes the effect of the floating-to-fixed interest rate swap through its expiration on October 31, 2014.

As of September 30, 2014, \$208 million in term loans, \$106 million under the revolving credit facility, and \$1 million in letters of credit were outstanding under our senior secured credit facilities. As of September 30, 2014, the interest rate on our senior secured credit facilities was LIBOR plus 2.75%, which, as of such date, totaled 2.90%. The interest payments on a portion of our outstanding borrowings under the senior secured credit facilities are fixed through an interest rate swap agreement. See Note 10, *Derivative Financial Instruments* of the Notes to our Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q for a discussion of our interest rate swap agreement. We were in compliance with all covenants under our senior secured credit facility agreement as of September 30, 2014.

As of September 30, 2014, we had approximately \$317 million available, net of outstanding letters of credit, under our revolving credit facility. There can be no assurance that we will be able to draw on the full available balance of our senior secured credit facilities if the financial institutions that have extended such credit commitments become unwilling or unable to fund such borrowings.

**Other Matters Affecting Future Capital Requirements**

The stock repurchase program approved by the Board of Directors of Allscripts Healthcare Solutions, Inc. (the *Board*) in April 2011 expired on May 9, 2014. No shares were repurchased under this program during the six months ended June 30, 2014 and the year ended December 31, 2013. As of the date of this report, there is no current authorization.

We are currently in the fourth year of a ten-year agreement with Xerox Consultant Services ( *Xerox* ) to provide services to support our remote hosting services for our Sunrise acute care clients. We maintain all client relationships and domain expertise with respect to the hosted applications. The agreement encompasses our payment to Xerox for certain of our employees to be retained by Xerox from our hosting staff, new remote hosting staff and technology infrastructure, as well as other data center and hosting services, for a base amount of approximately \$50 million per year plus charges for services incremental to the base agreement. During the nine months ended September 30, 2014, we incurred approximately \$51 million of expenses under this agreement, which are included in cost of revenue in our consolidated statements of operations.

We currently plan to invest over \$200 million in research and development efforts during 2014. Our total spending consists of research and development costs directly recorded to expense and also includes capitalized software development costs. To supplement our statement of

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operations, the table below presents a non-GAAP measure of research and development-related expenses that we believe is a useful metric for evaluating how we are investing in research and development.

	<b>Nine Months Ended September 30, 2014</b>
<b>(Dollar amounts in thousands)</b>	
Research and development costs directly recorded to expense	\$ 151,283
Capitalized software development costs	28,318
<b>Total non-GAAP R&amp;D-related spending</b>	<b>\$ 179,601</b>
Total revenue	\$ 1,036,970
Total non-GAAP R&D-related spending as a % of total revenue	17%

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During the remainder of 2014 and in the future, we plan to continue to invest in targeted improvements to our information systems infrastructure, acquire computer equipment and software to add capacity and accommodate data management and hosting related to our subscription-based and hosting solutions, and expand and make leasehold improvements at certain of our facilities. Our capital spending during 2013 included costs associated with the completion of a significant upgrade to our integrated ERP system, which are not expected to recur in the near future, and accelerated spending on certain software development efforts. As a result, we expect our capital spending during the year ending December 31, 2014 to be lower when compared with the year ended December 31, 2013.

We believe that our cash, cash equivalents and marketable securities of approximately \$37 million as of September 30, 2014, our future cash flows, and our borrowing capacity under our senior secured credit facilities, when taken together, provide adequate resources to fund our ongoing cash requirements for the next twelve months. We cannot provide assurance that our actual cash requirements will not be greater than we expect as of the date of this Form 10-Q. We may, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services and technologies, each of which might impact our liquidity requirements or cause us to issue additional equity or debt securities.

If sources of liquidity are not available or if we cannot generate sufficient cash flow from operations during the next twelve months, we might be required to obtain additional sources of funds through additional operating improvements, capital market transactions, asset sales or financing from third parties, a combination thereof or otherwise. We cannot provide assurance that these additional sources of funds will be available or, if available, would have reasonable terms.

### **Contractual Obligations, Commitments and Off Balance Sheet Arrangements**

We have various contractual obligations, which are recorded as liabilities in our consolidated financial statements. Other items, such as operating lease contract obligations, are not recognized as liabilities in our consolidated financial statements but are required to be disclosed.

During the three months ended September 30, 2014, there were no material changes, outside of the ordinary course of business, to our contractual obligations and purchase commitments previously disclosed in our Form 10-K and adjusted for the increases in our purchase commitments disclosed in our periodic reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our market risk disclosures set forth in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk of our Form 10-K have not changed materially during the quarter ended September 30, 2014.

**Item 4. Controls and Procedures**

***Evaluation of disclosure controls and procedures***

As of September 30, 2014, our management, including our Chief Executive Officer and Chief Financial Officer, has reviewed and evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Based on their review and evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

***Changes in Internal Control over Financial Reporting***

There has been no changes in our internal control over financial reporting during the quarter ended September 30, 2014, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We hereby incorporate by reference Note 11, Contingencies, of the Notes to Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

**Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

The stock repurchase program approved by the Board of Directors of Allscripts Healthcare Solutions, Inc. (the Board ) in April 2011 expired on May 9, 2014. No shares were repurchased under this program during the six months ended June 30, 2014 and the year ended December 31, 2013. As of the date of this report, there is no current authorization.

**Item 6. Exhibits**

**(a) Exhibits**

See Index to Exhibits.

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**SIGNATURES**

**Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.**

**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

By:                   /s/ Richard J. Poulton  
                          **Richard J. Poulton**  
                          **Executive Vice President,**

**Chief Financial Officer**

Date: November 7, 2014

**Table of Contents****INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Filed Herewith</b>	<b>Furnished Herewith</b>
31.1	Rule 13a - 14(a) Certification of Chief Executive Officer	X	
31.2	Rule 13a - 14(a) Certification of Chief Financial Officer	X	
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer		X
101.INS	XBRL Instance Document		
101.SCH	XBRL Taxonomy Extension Schema		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase		
101.LAB	XBRL Taxonomy Extension Label Linkbase		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase		
101.DEF	XBRL Taxonomy Definition Linkbase		