
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C 20549**

FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

Commission file number 000-32085

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

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)

(800) 654-0889
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. 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

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 April 30, 2006, there were 52,115,672 shares of the registrant's \$0.01 par value common stock outstanding.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share amounts)

	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$35,225	\$60,905
Marketable securities	13,726	54,408
Accounts receivable, net of allowances of \$3,453 and \$2,337 at March 31, 2006 and December 31, 2005, respectively	43,366	29,244
Other receivables	162	502
Deferred taxes, net	7,200	—
Inventories	4,063	2,174
Prepaid expenses and other current assets	6,877	5,811
Total current assets	110,619	153,044
Long-term marketable securities	17,812	30,750
Property and equipment, net	12,182	2,753
Software development costs, net	6,777	6,409
Deferred taxes, net	28,232	—
Intangible assets, net	86,907	9,151
Goodwill	181,104	13,760
Other assets	5,779	5,097
Total assets	<u>\$449,412</u>	<u>\$220,964</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$12,144	\$8,630
Accrued expenses	16,822	11,489
Accrued compensation	5,226	2,302
Current portion of long-term debt	243	—
Deferred revenue	37,459	17,306
Total current liabilities	71,894	39,727
Long-term debt	85,637	82,500
Other liabilities	309	318
Total liabilities	157,840	122,545
Preferred stock:		
Undesignated, \$0.01 par value, 1,000 shares authorized, no shares issued and outstanding at March 31, 2006 and December 31, 2005	—	—
Common stock:		
\$0.01 par value, 150,000 shares authorized; 52,059 and 42,302 shares issued and 52,059 and 40,873 shares outstanding at March 31, 2006 and December 31, 2005, respectively	521	423
Less treasury stock:		
\$0.01 par value, 0 and 1,399 shares at March 31, 2006 and December 31, 2005, respectively	—	(11,250)
Additional paid-in-capital	835,874	655,980
Accumulated deficit	(544,377)	(545,700)
Unearned compensation	—	(374)
Accumulated other comprehensive loss	(446)	(660)
Total stockholders' equity	291,572	98,419
Total liabilities and stockholders' equity	<u>\$449,412</u>	<u>\$220,964</u>

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2006	2005
	(Unaudited)	
Revenue:		
Software and related services	\$ 28,314	\$ 14,310
Prepackaged medications	11,510	9,835
Information services	2,380	2,050
Total revenue	<u>42,204</u>	<u>26,195</u>
Cost of revenue:		
Software and related services	11,481	5,124
Prepackaged medications	9,326	7,723
Information services	1,272	1,181
Total cost of revenue	<u>22,079</u>	<u>14,028</u>
Gross profit	20,125	12,167
Selling, general and administrative expenses	16,401	10,357
Stock-based compensation expense	407	—
Amortization of intangible assets	1,370	436
Income from operations	<u>1,947</u>	<u>1,374</u>
Interest expense	(895)	(877)
Interest income	1,199	877
Other expense, net	(118)	(40)
Income before income taxes	2,133	1,334
Provision for income tax	810	—
Net income	<u>\$ 1,323</u>	<u>\$ 1,334</u>
Net income per share—basic and diluted	<u>\$ 0.03</u>	<u>\$ 0.03</u>
Weighted-average shares of common stock outstanding used in computing basic net income per share	<u>44,903</u>	<u>39,073</u>
Weighted-average shares of common stock outstanding used in computing diluted net income per share	<u>47,974</u>	<u>42,171</u>

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended	
	March 31,	
	2006	2005
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$1,323	\$1,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,734	1,569
Stock-based compensation expense	407	—
Write-off of capitalized software	290	—
Realized loss on investments	118	9
Provision for doubtful accounts	324	102
Changes in operating assets and liabilities:		
Accounts receivable	(1,950)	(1,994)
Other receivables	340	20
Inventories	475	203
Prepaid expenses and other assets	(349)	1,314
Accounts payable	1,052	(1,454)
Accrued expenses	2,066	(964)
Accrued compensation	(877)	(1,323)
Deferred revenue	3,313	2,490
Other liabilities	(30)	79
Net cash provided by operating activities	<u>9,236</u>	<u>1,385</u>
Cash flows from investing activities:		
Capital expenditures	(1,190)	(437)
Capitalized software and website development costs	(1,389)	(611)
Investment in promissory note receivable	(500)	(450)
Purchase of marketable securities	—	(4,149)
Maturities of marketable securities	53,665	9,927
Payment for purchase of A4 Health Systems, Inc. and related transaction costs (net of \$21,742 cash acquired)	(207,920)	—
Payments for other acquisitions	—	(982)
Net cash provided by (used in) investing activities	<u>(157,334)</u>	<u>3,298</u>
Cash flows from financing activities:		
Payments of capital lease obligations	(15)	(16)
Net proceeds received in issuance of common stock	140,991	—
Repurchase of common stock from related party	(21,078)	—
Proceeds from exercise of common stock options	2,520	3,623
Net cash provided by financing activities	<u>122,418</u>	<u>3,607</u>
Net increase (decrease) in cash and cash equivalents	(25,680)	8,290
Cash and cash equivalents, beginning of period	60,905	16,972
Cash and cash equivalents, end of period	<u>\$35,225</u>	<u>\$25,262</u>
Supplemental disclosure of cash flow information:		
Payment of interest on long term debt	<u>\$1,444</u>	<u>\$1,516</u>
Non-cash investing and financing information:		
Common stock issued in connection with the acquisition of A4 Health Systems, Inc.	\$68,775	—
Assumption of secured promissory note in connection with the A4 acquisition	\$3,400	—
Issuance of common stock from treasury	<u>\$11,250</u>	<u>—</u>

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollar and share amounts in thousands, except per share amounts)

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). The interim consolidated financial statements include the consolidated accounts of Allscripts Healthcare Solutions, Inc and its wholly-owned subsidiaries (“Allscripts” or the “Company”) with all significant intercompany transactions eliminated. In management’s opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. These financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2005, in Allscripts’ Annual Report on Form 10-K, filed with the SEC on March 15, 2006. Operating results for the three-months ended March 31, 2006 are not necessarily indicative of the results for the full year. Certain of the 2005 amounts in the accompanying financial statements have been reclassified to conform to the presentation in this report.

2. Acquisitions

On March 2, 2006, Allscripts completed its acquisition of A4 Health Systems, Inc. (“A4”), whereby Allscripts acquired all of the outstanding equity interests of A4 for aggregate consideration of \$215,000 in cash and 3,500 shares of Allscripts common stock. An additional payment of approximately \$11,360, which is subject to adjustment pursuant to the terms in the related merger agreement, was made by Allscripts in respect of A4’s estimated level of working capital. The A4 acquisition enables Allscripts to reach new markets such as small and mid-sized physician practice groups that seek either a practice management system or a combined electronic health record (“EHR”) and practice management solution, and hospitals that seek emergency department information systems and care management solutions.

The A4 acquisition has been accounted for as a business combination under Statement of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations.” The assets acquired and liabilities assumed have been recorded at the date of acquisition at their respective fair values.

The results of operations of A4 have been included in the accompanying unaudited consolidated statements of operations from the date of the A4 acquisition. The total purchase price for the acquisition, subject to finalization of the working capital adjustment as defined in the merger agreement, is as follows:

Cash consideration to A4 shareholders (cash payment of \$215,000 and additional preliminary working capital payment of \$11,360)	\$ 226,360
Fair value of Allscripts shares issued to A4 shareholders (3,500 Allscripts common shares at \$19.65 per share, the last sale price of Allscripts common stock on March 2, 2006)	68,775
Acquisition-related transaction costs	4,358
Total purchase price	<u>\$299,493</u>

The above purchase price has been preliminarily allocated to the tangible and intangible assets acquired and liabilities assumed based on management’s estimates of their current fair values. The Company is in the process of obtaining a third party valuation of certain intangible assets. The final valuation of net assets is expected to be completed as soon as possible, but no later than one year from the acquisition date in accordance with generally accepted accounting principles. Acquisition-related transaction costs include investment banking fees, loan commitment fees, legal and accounting fees and other external costs directly related to the A4 acquisition.

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The purchase price has been preliminarily allocated based on management's estimates as follows:

Current assets, including \$21,742 of cash acquired in the acquisition	\$37,518
Property and equipment, net	8,791
Intangible assets	79,110
Non-current other assets	25
Goodwill	226,328
Current liabilities, excluding current portion of long term debt	(26,127)
Current and long-term debt	(3,400)
Deferred tax liabilities, net	(22,752)
Net assets acquired	<u>\$299,493</u>

In connection with the acquisition of A4, management determined under the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), that it is more likely than not that Allscripts will generate adequate taxable income for the foreseeable future to realize the majority of its deferred tax assets. Accordingly, management reversed \$58,984 of its valuation allowance against goodwill in purchase accounting for the A4 acquisition.

Of the \$79,110 intangible assets acquired, \$40,000 was assigned to developed technology rights with a weighted-average useful life of approximately 8 years, \$20,800 was assigned to customer relationships with a useful life of 15 years, \$15,210 was assigned to registered trade marks with a useful life of 10 years, \$1,400 was assigned to A4's backlog with a useful life of six months, \$1,200 was assigned to non-competition agreements with a useful life of 2 years, and \$500 was assigned to proprietary technology with a useful life of 5 years. Among the factors that contributed to a purchase price resulting in the recognition of goodwill were A4's history of profitability and high operating margins, strong sales force and overall employee base, and leadership position in the healthcare information market.

The following unaudited pro forma information assumes the A4 acquisition occurred on January 1, 2005. These unaudited pro forma results have been prepared for informational purposes only and do not purport to represent what the results of operations would have been had the A4 acquisition occurred as of January 1, 2005, nor of future results of operations. The unaudited pro forma results for the three months ended March 31, 2006 and 2005 are as follows:

	Three Months Ended	
	March 31,	
	2006	2005
Total revenue	\$57,215	\$42,150
Net income	\$3,575	(\$669)
Earnings per share:		
Basic	\$0.07	(\$0.01)
Diluted	\$0.06	(\$0.01)

The unaudited pro forma information for the three months ended March 31, 2006 and 2005 include the following adjustments:

- Increases to amortization expense of \$1,079 and \$2,658 for the three months ended March 31, 2006 and 2005, respectively, related to management's preliminary estimate of the fair value of intangible assets acquired as a result of the A4 acquisition less the elimination of original amortization recorded by A4.
- Decreases to interest income of \$885 and \$608 for the three months ended March 31, 2006 and 2005, respectively, as a result of lower cash, cash equivalents and marketable securities balances at January 1, 2006 and 2005.
- A transfer from Allscripts' selling, general and marketing expense of \$1,021 in the first quarter 2006 to the first quarter of 2005 related to non-recurring A4 integration costs.
- An increase in revenue of \$495 in the first quarter of 2006 and a decrease in revenue of \$1,485 for the first quarter of 2005 relating to deferred revenue purchase accounting adjustments.
- An increase to the tax provision of \$1,381 for the three months ended March 31, 2006 to reflect a 38% tax provision on a proforma basis.

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- The weighted average number of shares outstanding used for the computation of basic and diluted earnings per share for the three months ended March 31, 2006 and 2005, assumes that the 8,395 shares issued in connection with Allscripts' common stock offering completed in February 2006, in order to partially fund the cash portion of the A4 purchase price, occurred on January 1, 2005, and that the 3,500 shares issued to A4 shareholders as part of the consideration to acquire A4 occurred on January 1, 2005.

3. Stock-Based Compensation

Effective January 1, 2006, Allscripts adopted the provisions of SFAS No. 123 (Revised), "Share-Based Payment" ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense for all stock-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. Allscripts previously applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and related interpretations and provided the pro forma disclosures required by SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosures" ("SFAS 148"), both of which were superseded by SFAS 123(R).

Prior to the Adoption of SFAS 123(R)

Prior to the adoption of SFAS 123(R), employee stock-based compensation was not reflected in Allscripts' net income because all stock options granted under Allscripts' equity plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Accordingly, Allscripts' net income for the three months ended March 31, 2005 does not reflect employee stock-based compensation.

The pro forma disclosures required by SFAS 123 and SFAS 148 for the three months ended March 31, 2005 are as follows:

	Three Months Ended March 31, 2005
Net income, as reported	\$1,334
Stock-based compensation cost	(2,184)
Pro forma net loss	(\$850)
Net income per share—basic and diluted, as reported	\$0.03
Pro forma net loss per share—basic and diluted	(\$0.02)

Impact of the Adoption of SFAS 123(R)

Allscripts has elected to adopt the modified prospective application transition method as permitted by SFAS 123(R). Accordingly, during the three months ended March 31, 2006, Allscripts recorded stock-based compensation cost totaling the amount that would have been recognized had the fair value method been applied since the effective date of SFAS 123. Previously reported amounts have not been restated. For the three months ended March 31, 2006, the effect on Allscripts' results of operations of recording stock-based compensation in accordance with SFAS 123(R) was as follows:

	Three Months Ended March 31, 2006
Stock-based compensation:	
Restricted stock	\$271
Stock options	136
Total stock-based compensation	\$407
Effect on net income	\$407
Effect on net income per share:	
Basic	\$0.01
Diluted	\$0.01

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Had the company not adopted SFAS 123(R) and continued to account for stock awards under APB 25, stock-based compensation expense related to awards of restricted stock would have been \$308 for the three months ended March 31, 2006 under the provisions of APB 25.

In Allscripts' pro forma disclosures prior to the adoption of SFAS 123(R), Allscripts accounted for forfeitures upon occurrence, and, using this method, Allscripts had an unrecorded deferred stock-based compensation balance related to stock options of \$718 before estimated forfeitures as of January 1, 2006. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pursuant to SFAS 123(R), as of January 1, 2006 Allscripts estimated that the stock-based compensation for options not expected to vest was \$154, and, therefore, the unrecorded deferred stock-based compensation balance related to stock options was adjusted to \$564 after estimated forfeitures.

As of March 31, 2006, the unrecorded deferred stock-based compensation balance related to stock options was \$428 after estimated forfeitures, and such amount will be recognized over an estimated weighted average amortization period of 1.4 years.

No stock-based compensation has been capitalized for the three months ended March 31, 2006 or at January 1, 2006, when the provisions of SFAS 123(R) were adopted.

Allscripts did not grant any stock options during the three months ended March 31, 2006. The fair value of stock options granted prior to January 1, 2006 was determined using the Black-Scholes option pricing model. The weighted average assumptions used in determining such fair values for the three months ended March 31, 2005 are as follows:

	<u>Three Months Ended March 31, 2005</u>
Risk-free interest rate	2.70%
Volatility	121%
Dividend rate	— %
Option life (years)	2.0

The following table summarizes the combined activity with respect to stock options granted under Allscripts' equity incentive plans during the periods indicated:

	<u>Options Outstanding</u>	<u>Weighted- Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted- Average Exercise Price</u>
Balance at December 31, 2003	10,303	\$6.11	4,602	\$8.50
Options granted	2,155	\$9.16		
Options exercised	(1,064)	\$3.89		
Options forfeited	<u>(518)</u>	\$8.08		
Balance at December 31, 2004	10,876	\$6.84	6,503	\$7.86
Options granted	41	\$11.99		
Options exercised	(2,158)	\$4.39		
Options forfeited	<u>(216)</u>	\$10.36		
Balance at December 31, 2005	8,543	\$7.39	8,356	\$7.38
Options granted	—	\$—		
Options exercised	(541)	\$4.65		
Options forfeited	<u>(110)</u>	\$34.24		
Balance at March 31, 2006	<u>7,892</u>	\$7.31	7,748	\$7.28

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The aggregate intrinsic value of stock options outstanding as of March 31, 2006 was \$93,807, which is based on Allscripts' closing stock price of \$18.31 as of March 31, 2006. The intrinsic value of stock options outstanding represents the amount that would have been received by the option holders had all option holders exercised their stock options as of that date. The total number of vested, in-the-money stock options as of March 31, 2006 was 7,083, with an intrinsic value of \$92,400.

The total intrinsic value of stock options exercised during the three months ended March 31, 2006 was \$7,504. The total cash received from employees as a result of employee stock option exercises during the three months ended March 31, 2006 was \$2,520. Allscripts settles employee stock option exercises with newly issued common shares.

In accordance with SFAS 123(R), we charged \$371 of unearned compensation related to unvested awards of restricted stock against additional paid-in-capital on the date of adoption. During the three months ended March 31, 2006, management awarded 303 shares of restricted stock to certain employees under the Amended and Restated 1993 Stock Incentive Plan, with an average fair value of \$16.31 per share. The awards of restricted stock have an average four-year vesting term. Upon termination of an employee's employment with the Company, any unvested shares of restricted stock will be forfeited. The fair value of the shares of restricted stock on the date of the grant is amortized ratably over the vesting period. Total stock-based compensation expense related to restricted stock issued to employees was \$271 and \$0 for the three months ended March 31, 2006 and 2005, respectively. As of March 31, 2006, \$4,065 of unearned compensation related to unvested awards of restricted stock was netted against the balance of additional paid in capital and will be recognized over the remaining vesting terms of the awards. All outstanding shares of restricted stock were unvested at March 31, 2006.

4. Revenue Recognition

Revenue from Allscripts' sales of pharmaceutical products, net of provisions for estimated returns, is recognized upon shipment of the pharmaceutical products, the point at which the customer takes ownership and assumes risk of loss, when no performance obligations remain and collection of the receivable is probable. Allscripts offers customers the right to return pharmaceutical products under various policies and estimates and maintains reserves for product returns based on historical experience following the provisions of FAS No. 48, "Revenue Recognition When Right of Return Exists."

Revenue from software licensing arrangements, where the service element is considered essential to the functionality of the other elements of the arrangement, is accounted for under American Institute of Certified Public Accountants Statement of Position ("SOP") 81-1, "Accounting for Performance of Construction-Type Contracts and Certain Production-Type Contracts." Allscripts recognizes such revenue on an input basis using actual hours worked as a percentage of total expected hours required by the arrangement, provided that the fee is fixed and determinable and collection of the receivable is probable. If any such software licensing arrangement is deemed to have extended payment terms, revenue is recognized using the input method but is limited to the amounts due and payable. Maintenance and support revenue from software licensing arrangements is recognized over the term of the applicable support agreement based on vendor-specific objective evidence of fair value of the maintenance and support revenue, which is generally based upon contractual renewal rates.

Revenue from software licensing arrangements where the service element is not considered essential to the functionality of the other elements of the arrangement is accounted for under SOP 97-2, "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." Such revenue is recognized upon shipment of the software or as services are performed, provided that persuasive evidence of an arrangement exists, fees are considered fixed and determinable, and collection of the receivable is considered probable. The revenue recognized for each separate element of a multiple-element software contract is based upon vendor-specific objective evidence of fair value, which is based upon the price the customer is required to pay when the element is sold separately.

Certain of Allscripts' customer arrangements in its information services segment encompass multiple deliverables. Allscripts accounts for these arrangements in accordance with Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). If the deliverables meet the criteria in EITF 00-21, the deliverables are separated into separate units of accounting, and revenue is allocated to the deliverables based on their relative fair values. The criteria specified in EITF 00-21 are that the delivered item has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered item, and if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. Applicable revenue recognition criteria is considered separately for each separate unit of accounting.

Management applies judgment to ensure appropriate application of EITF 00-21, including value allocation among multiple deliverables, determination of whether undelivered elements are essential to the functionality of delivered elements and timing of revenue recognition, among others. For those arrangements where the deliverables do not qualify as a separate unit of accounting, revenue from all deliverables is treated as one accounting unit and recognized on a straight-line basis over the term of the arrangement. Changes in circumstances and customer data may affect management's analysis of EITF 00-21 criteria, which may cause Allscripts to adjust upward or downward the amount of revenue recognized under the arrangement.

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In accordance with EITF issued Consensus 01-14, "Income Statement Characterization of Reimbursements for 'Out-of-Pocket' Expenses Incurred," revenue includes reimbursable expenses charged to Allscripts' clients.

As of March 31, 2006 and December 31, 2005, there were \$6,191 and \$6,668, respectively, of revenue earned on contracts in excess of billings, which are included in the balance of accounts receivable. Billings on contracts where revenue has been earned in excess of billings are expected to occur according to the contract terms. Deferred revenue consisted of the following:

	March 31, 2006	December 31, 2005
Prepayments and billings in excess of revenue earned on contracts in progress for software, services and support provided by Allscripts' Clinical Solutions Group and included in the software and related services segment	\$15,729	\$12,860
Prepayments and billings in excess of revenue earned on contracts in progress for software, services and support provided by A4 and included in Allscripts' software and related services segment	17,483	—
Prepayments and billings in excess of revenue earned for interactive physician education sessions and related services provided by the Allscripts' Physicians Interactive Group and included in the information services segment	4,247	4,446
Total deferred revenue	<u>\$37,459</u>	<u>\$17,306</u>

5. Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalent balances at March 31, 2006 and December 31, 2005 consist of cash and highly liquid corporate debt securities with original maturities at the time of purchase of less than 90 days. Allscripts' cash, cash equivalents, short-term and long-term marketable securities are invested in overnight repurchase agreements, money market funds and corporate debt securities. The carrying values of cash and cash equivalents, short-term and long-term marketable securities held by Allscripts are as follows:

	March 31, 2006	December 31, 2005
Cash and cash equivalents:		
Cash	\$23,386	\$24,274
Money market funds	10,842	1,367
Corporate debt securities	997	35,264
	<u>35,225</u>	<u>60,905</u>
Short-term marketable securities:		
U.S. government and agency debt obligations	9,601	13,151
Corporate debt securities	4,125	41,257
	<u>13,726</u>	<u>54,408</u>
Long-term marketable securities:		
U.S. government and agency debt obligations	6,743	7,810
Corporate debt securities	11,069	22,940
	<u>17,812</u>	<u>30,750</u>
Total cash, cash equivalents and marketable securities	<u>\$66,763</u>	<u>\$146,063</u>

6. Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period except those resulting from investments by owners and distributions to owners.

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The components of comprehensive income are as follows:

	Three Months Ended	
	March 31,	
	2006	2005
Net income	\$1,323	\$1,334
Other comprehensive income:		
Unrealized gain (loss) on marketable securities, net of taxes	214	(353)
Comprehensive income	\$1,537	\$981

The components of accumulated other comprehensive income, net of income tax, consist of unrealized losses on Allscripts' marketable securities. The components of net unrealized gain (loss) on marketable securities are as follows:

	March 31, 2006	December 31, 2005
Short-term marketable securities:		
Gross unrealized gains	\$—	\$14
Gross unrealized losses	(158)	(258)
Net short-term unrealized losses	(158)	(244)
Long-term marketable securities:		
Gross unrealized gains	—	—
Gross unrealized losses	(288)	(416)
Net long-term unrealized losses	(288)	(416)
Total net unrealized losses on marketable securities	(\$446)	(\$660)

7. Common Stock

Public Offering of Common Stock

On February 28, 2006, Allscripts completed its offering of 8,395 shares of common stock and received approximately \$140,991 in net proceeds therefrom, based on a public offering price of \$17.75 per share after deducting underwriting discounts and commissions and professional expenses. Of the 8,395 shares issued, 1,399 shares were issued from treasury. All of the net proceeds received from the sale of common stock were used to fund the acquisition of A4.

Acquisition of A4 Health Systems, Inc.

On March 2, 2006, Allscripts acquired all of the outstanding equity interests of A4 for aggregate consideration of \$230,718 in cash, which includes \$4,358 of acquisition-related transaction costs and an additional cash payment of \$11,360, subject to adjustment as defined in the merger agreement, related to A4's estimated level of working capital, and the issuance of 3,500 shares of Allscripts common stock.

Repurchase of Common Stock

On March 9, 2006, Allscripts repurchased 1,250 shares of its common stock directly from IDX Investment Corporation, a wholly owned subsidiary of General Electric Company. Allscripts paid \$21,078, which is based on 95% of the February 28, 2006 public offering price of \$17.75.

8. Net Income Per Share

Allscripts accounts for net income per share in accordance with SFAS No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 requires the presentation of "basic" income per share and "diluted" income per share. Basic income per share is computed by dividing net income by the weighted-average shares of outstanding common stock. For purposes of calculating diluted earnings per share, the denominator includes both the weighted average shares of common stock outstanding and dilutive potential common stock equivalents. Dilutive common stock equivalent shares consist primarily of stock options and unvested restricted stock. The components of the diluted weighted average common shares outstanding are as follows:

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	Three Months Ended	
	March 31,	
	2006	2005
Weighted average shares outstanding:		
Basic	44,903	39,073
Effect of dilutive securities (primarily stock options)	3,071	3,098
Diluted	47,974	42,171

In accordance with EITF Issue No. 04-8, “The Effect of Contingently Convertible Debt on Diluted Earnings Per Share” (“EITF 04-8”), contingently convertible debt instruments are subject to the if-converted method under FAS 128, “Earnings Per Share,” regardless of the contingent features included in the instrument assuming the shares are not anti-dilutive. Under the provisions of EITF 04-8, the as-if convertible 7,300 shares and interest expense related to the 3.5% Senior Convertible Debentures due 2024 that were issued in July 2005 were excluded from the basic and diluted earnings per share calculation for the three months ended March 31, 2006 and 2005, as the effects were anti-dilutive.

9. Investment in Promissory Note Receivable and Minority Interest

In August 2004, Allscripts entered into a convertible secured promissory note purchase agreement (“2004 Note Purchase Agreement”) with Medem, Inc. (“Medem”) and certain other investors. Under the 2004 Note Purchase Agreement, Allscripts acquired a convertible secured promissory note in the aggregate principal amount of \$2,100 (“2004 Promissory Note”) under which Medem may borrow up to \$2,100 from Allscripts. The Promissory Note bears interest at an annual rate of 3% and is payable on a quarterly basis. The Promissory Note becomes due and payable upon the earlier to occur of (i) a sale of Medem, as defined in the 2004 Note Purchase Agreement, or the filing of a registration statement with the SEC for the public offering of any class of securities of Medem (a “Liquidity Event”), and (ii) August 12, 2007. As of December 31, 2005, Allscripts had funded the full \$2,100 under the 2004 Note Purchase Agreement. The Promissory Note receivable balance is included in other assets in the consolidated balance sheets as of March 31, 2006 and December 31, 2005.

In connection with the transaction described above, Allscripts entered into a share purchase agreement with Medem (“Share Purchase Agreement”) pursuant to which Allscripts purchased shares of Medem’s Series A Common Stock and shares of Medem’s Series B Common Stock for an aggregate purchase price equal to \$500 in cash, and the estimated fair market value of these shares is recorded in other assets on the consolidated balance sheets as of March 31, 2006 and December 31, 2005. In addition, pursuant to the terms of the Share Purchase Agreement, Allscripts has a three-year option to acquire an additional interest in Medem for an aggregate price of \$600.

In November 2005, Allscripts entered into an additional convertible secured promissory note purchase agreement (“2005 Note Purchase Agreement”) with Medem and certain other investors. Under the 2005 Note Purchase Agreement, Allscripts acquired a convertible secured promissory note in the aggregate principal amount of \$500 (“2005 Promissory Note”) and together with the 2004 Promissory Note, “Promissory Notes”) under which Medem may borrow up to \$500 from Allscripts. The 2005 Promissory Note bears interest at an annual rate of 3% and is payable on a quarterly basis. The 2005 Promissory Note becomes due and payable upon the earlier to occur of (i) a Liquidity Event, as defined above, and (ii) December 31, 2007. As of March 31, 2006, Allscripts had funded the full \$500 under the 2005 Note Purchase Agreement.

At any time on or prior to maturity, Allscripts may convert all (but not a portion) of the Promissory Notes into 2,317 shares of Medem’s Series A Common Stock. If Allscripts converts the Promissory Notes and exercises its full option to purchase additional equity in Medem, Allscripts will own approximately 41.1% of the voting capital of Medem and 33.2% of the capital stock of Medem. Allscripts continues to account for this investment under the cost basis of accounting. The total investment in the Promissory Notes and Share Purchase Agreement totaled \$3,100 and \$2,600 as of March 31, 2006 and December 31, 2005, respectively.

10. Long-Term Debt

In July 2004, Allscripts completed a private placement of \$82,500 of 3.50% Senior Convertible Debentures due 2024 (“Notes”). The Notes can be converted, in certain circumstances, into approximately 7,300 shares of common stock based upon a conversion price of approximately \$11.26 per share, subject to adjustment for certain events. No payments of principal on the Notes are due until 2024.

The Notes are only convertible under certain circumstances, including: (i) during any fiscal quarter if the closing price of Allscripts’ common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the preceding fiscal quarter exceeds \$14.64 per share; (ii) if Allscripts calls the Notes for redemption; or (iii) upon the occurrence

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of certain specified corporate transactions, as defined in the indenture relating to the Notes. Upon conversion, Allscripts has the right to deliver common stock, cash or a combination of cash and shares of common stock. Allscripts may redeem some or all of the Notes for cash any time on or after July 20, 2009 at the Notes' full principal amount plus accrued and unpaid interest, if any. Holders of the Notes may require Allscripts to repurchase some or all of the Notes on July 15, 2009, 2014 and 2019 or, subject to certain exceptions, upon a change of control of Allscripts.

Allscripts received approximately \$79,612 in net proceeds from the offering after deduction for issuance costs consisting of underwriting fees and professional expenses. The debt issuance costs of approximately \$2,888 have been capitalized as an other asset and are being amortized as interest expense over five years using the effective interest method, through the first date that the holders have the option to require Allscripts to purchase the Notes.

In connection with the acquisition of A4, Allscripts assumed a secured promissory note with an aggregate principal amount of \$3,400 as of March 2, 2006, maturing on October 31, 2015. The promissory note bears interest at 7.85% per annum, and principal and interest are due monthly. In the event of prepayment in full or in part, Allscripts will be subject to a prepayment fee of 1% or more, as described in the related promissory note agreement, of the amount of principal prepaid on the promissory note. The promissory note is secured by the former corporate facilities of A4 and any lease or rental payments as defined in the related agreements.

Long-term debt outstanding as of March 31, 2006 consists of the principal balance on the Notes of \$82,500 and the principal balance on the secured promissory note of \$3,137. Long-term debt outstanding as of December 31, 2005 consists of the principal balance on the Notes of \$82,500.

	March 31, 2006	December 31, 2005
3.5% Senior convertible debt	\$82,500	\$82,500
7.85% Secured promissory note	3,380	—
Total debt	85,880	82,500
Less: Current portion	243	—
Long-term debt, net of current portion	\$85,637	\$82,500

Interest expense for the three months ended March 31, 2006 and 2005, consists of \$744 and \$722, respectively, in interest expense related to the Notes and the secured promissory note and \$151 and \$155, respectively, in debt issuance cost amortization.

11. Income Taxes

As a result of the A4 acquisition in March 2006, management has determined under the provisions of SFAS 109, "Accounting for Income Taxes", that it is more likely than not that Allscripts will generate adequate taxable income for the foreseeable future to realize the majority of its deferred tax assets. Accordingly, management reversed \$58,984 of its valuation allowance against goodwill in purchase accounting for the A4 acquisition. Approximately \$2,300 of the tax valuation allowance was not reversed during the first quarter of 2006 due to management's assessment as of March 31, 2006 of potential limitations on Allscripts net operating losses ("NOL") pursuant to Internal Revenue Code Section 382, which imposes an annual limitation on the future utilization of net operating losses. The \$2,300 in remaining tax valuation reserve as of March 31, 2006 is management's estimate as of March 31, 2006 of the potential NOL limitations. The Section 382 analysis will be completed during the second quarter of 2006, and Allscripts will make any necessary adjustments to goodwill in purchase accounting at that time. For the three months ended March 31, 2006, Allscripts recorded a tax provision of \$810, using an effective tax rate of 38%.

12. Business Segments

FAS No. 131, "Disclosures about Segments of a Business Enterprise and Related Information," establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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Allscripts organizes its business around groups of similar products, which results in three reportable segments: software and related services, prepackaged medications, and information services. The software and related services segment derives its revenue from the sale and installation of software solutions, including EHR, practice management, electronic prescribing (“e-prescribing”), document imaging, emergency department and care management solutions, as well as transaction fees associated with the use of the software and the resale of related hardware. The prepackaged medications segment derives its revenue from the repackaging, sale, and distribution of medications and medical supplies. The information services segment primarily derives its revenue from the sale of interactive physician education sessions. Allscripts does not report its assets by segment. Allscripts does not allocate interest income, interest expense, other income or income taxes to its operating segments. In addition, Allscripts records corporate selling, general, and administration expenses, amortization of intangibles, restructuring and other related charges in its unallocated corporate costs. These costs are not included in the financial results of Allscripts’ operating segments.

	For the Three Months Ended March 31,	
	2006	2005
Revenue:		
Software and related services	\$28,314	\$14,310
Prepackaged medications	11,510	9,835
Information services	2,380	2,050
Total revenue	<u>\$42,204</u>	<u>\$26,195</u>
Profit from operations:		
Software and related services	\$6,423	\$3,902
Prepackaged medications	1,349	1,597
Information services	338	149
Unallocated corporate expenses	(6,163)	(4,274)
Income from operations	1,947	1,374
Net interest and other income (expense)	186	(40)
Income before income taxes	<u>\$2,133</u>	<u>\$1,334</u>

13. Related Party Transactions

Medem Note Purchase

On February 7, 2006, Allscripts funded an additional convertible secured promissory note from Medem in the principal amount of \$500 under the 2005 Note Purchase Agreement (see Note 9).

Repurchase of Common Stock

IDX, which is wholly owned by GE, owned approximately 11.2% of our common stock as of March 31, 2006. On March 9, 2006, we repurchased 1,250 shares of Allscripts common stock directly from IDX. Allscripts paid \$21,078, which is based on 95% of the February 28, 2006 public offering price of \$17.75.

Relationship with Med3000, Inc. and Trip Logics

John P. McConnell, the Chief Executive Officer and Chairman of the Board of A4 prior to Allscripts’ acquisition of A4, became one of our directors in connection with the acquisition of A4. Mr. McConnell serves on the board of directors of Med3000, Inc. (“Med3000”) and has an ownership interest of approximately 11% in Med3000. Allscripts has a license and distribution agreement with Med3000 pursuant to which Med3000 possesses the right to market, resell and sublicense Allscripts’ electronic health record solutions to its customers. As of the date of this report, Med3000 has agreed to purchase from Allscripts approximately \$1,000 of hardware, software and related services. For the three months ended March 31, 2006, Allscripts recognized \$573 of revenue under such contract. As of March 31, 2006, Allscripts had \$233 in accounts receivable with Med3000. Mr. McConnell’s spouse is an owner of Trip Logics, a travel agency used by A4. As of March 31, 2006, Allscripts had \$2 in accounts payable to Trip Logics.

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

(Dollar amounts in thousands)

This report and statements we make or our representatives make contain forward-looking statements that involve risks and uncertainties, including those discussed below and elsewhere in this report. We develop forward-looking statements by combining currently available information with our beliefs and assumptions. These statements relate to future events, including our future performance, and often contain words like believe, expect, anticipate, intend, contemplate, seek, plan, estimate or similar expressions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. Recognize these statements for what they are and do not rely upon them as facts. We undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events or changes to future results over time or otherwise, except as required by law.

We make forward-looking statements under the protection afforded them by Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Because we cannot predict all of the risks and uncertainties that may affect us, or control the ones we do predict, these risks and uncertainties can cause our results to differ materially from the results we express in our forward-looking statements. In evaluating all forward-looking statements, you should specifically consider various factors that may cause actual results to vary from those contained in the forward-looking statements. For a detailed discussion of the risks, assumptions and uncertainties that may affect us, see our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the U.S. Securities and Exchange Commission on March 15, 2006 and available at www.sec.gov.

Overview

Allscripts Healthcare Solutions, Inc. (together with its wholly-owned subsidiaries, "Allscripts") is a leading provider of clinical software, connectivity and information solutions that physicians use to improve the quality of healthcare. Our business groups provide innovative solutions that inform physicians with just right, just in time information, connect physicians to each other and to the entire community of care, and transform healthcare, improving both the quality and efficiency of care. We provide clinical software applications, including electronic health record ("EHR"), practice management, electronic prescribing ("e-prescribing"), document imaging and emergency department and care management solutions through our Clinical Solutions Group. Additionally, we provide clinical product education and connectivity solutions for physicians and patients through our Physicians Interactive Group, along with physician-patient connectivity solutions through our partnership with Medem. We also provide medication fulfillment services through our Medication Services Group. We report our financial results utilizing three business segments: software and related services segment, prepackaged medications segment and information services segment.

The software and related services segment includes clinical software solutions offered by our Clinical Solutions Group, such as TouchWorks and TouchScript. TouchWorks is an award-winning EHR solution designed to enhance physician productivity using Tablet PCs, wireless handheld devices, or a desktop workstation for the purpose of automating the most common physician activities, including prescribing, dictating, ordering lab tests and viewing results, documenting clinical encounters, and capturing charges, among others. TouchWorks has the functionality to handle the complexities of large physician practices, while also addressing the needs of mid-sized physician practice groups. TouchScript is an e-prescribing solution that physicians can access securely via the Internet to quickly, safely and securely prescribe medications, check for drug interactions, access medication histories, review drug reference information, and send prescriptions directly to a pharmacy or mail order facility. TouchScript can be a starting point for medical groups to transition over time to a complete EHR.

On March 2, 2006, we completed our acquisition of A4 Health Systems, Inc., one of the leading providers of healthcare information technology solutions. The acquisition of A4 allows us to reach new markets such as small and mid-sized physician practice groups that seek either a practice management system or a combined EHR and practice management solution, and hospitals that seek emergency department information systems and care management solutions. The A4 acquisition also enables us to extend our existing product offerings by allowing us to independently offer an integrated solution that combines our TouchWorks EHR solution with A4's practice management system. A4's operating results have been classified in the software and related services segment as of the date of acquisition.

In our information services segment, the key products offered by our Physicians Interactive Group are Physicians Interactive, Patients Interactive and Enterprise eMarketing Solution. Physicians Interactive is a web-based solution that connects physicians with pharmaceutical

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companies, medical device manufacturers, and biotech companies. One element of this solution, often referred to as e-Detailing, uses interactive sessions to provide clinical education and information to physicians about medical products and disease states, which promotes more informed decision-making, increased efficiency, and ultimately higher quality patient care. Other elements of the Physicians Interactive platform include e-surveys, clinical updates, resource centers, key opinion leader materials, and other physician relationship management services. Patients Interactive is a web-based solution that enables physician-directed patient education, promoting medication adherence and compliance, and disease management. Through our partnership with Medem, our Patients Interactive and TouchWorks solutions also provide physicians and patients with a tool for secure online consultations, automated disease management services and personal health records. Enterprise eMarketing Solution provides pharmaceutical companies with a turnkey system to build an electronic dialogue and manage ongoing relationships with physicians. The Enterprise eMarketing Solution incorporates a full suite of online tools, including campaign management, physician communication and education, sample and rep requests and e-Detailing opportunities.

Finally, our prepackaged medications segment is comprised of our Medication Services Group. This group provides point-of-care medication management and medical supply services and solutions for physicians and other healthcare providers.

The composition of our revenue by segment for the three-month periods ended on the dates indicated below is as follows:

	2006	2005			
	March 31	Dec. 31	Sept. 30	June 30	March 31
Software and related services	\$ 28,314	\$ 18,249	\$ 16,462	\$ 16,145	\$ 14,310
Prepackaged medications	11,510	12,789	11,496	11,489	9,835
Information services	2,380	3,159	2,680	1,900	2,050
Total revenue	<u>\$ 42,204</u>	<u>\$ 34,197</u>	<u>\$ 30,638</u>	<u>\$ 29,534</u>	<u>\$ 26,195</u>

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

Selling, general and administrative expenses consist primarily of salaries, bonuses and benefits for management and support personnel, commissions, facilities costs, depreciation, general operating expenses, non-capitalizable product development expenses, and selling and marketing expenses. The first quarter of 2006 also included non-recurring integration costs related to the A4 acquisition. Selling, general and administrative expenses for each segment consist of expenses directly related to that segment.

Adoption of New Accounting Standard

On January 1, 2006, Allscripts adopted Statement of Financial Accounting Standards No. 123 (Revised), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires companies to recognize stock-based compensation expense related to all stock awards issued to employees, including options, in the statement of operations based on their fair values on the date of the grant and after applying an estimated forfeiture rate. The stock-based compensation expense is to be recognized over the period in which an employee is required to provide service in exchange for the stock award. Additionally, for any unvested awards outstanding at the adoption date, SFAS 123(R) requires recognition of compensation expense, after applying a forfeiture rate, over the remaining vesting period of the stock-based award.

Allscripts adopted the modified prospective application transition method as provided by SFAS 123(R). Accordingly, during the three months ended March 31, 2006, the Company recorded stock-based compensation cost totaling the amount that would have been recognized had the fair value method been applied since the effective date of SFAS 123. Previously reported amounts have not been restated. For the three months ended March 31, 2006, the effect on Allscripts' results of operations of recording stock-based compensation in accordance with SFAS 123(R) was \$407, or \$0.01 per share.

Prior to the adoption of SFAS 123(R), our stock-based compensation awards were accounted for under the recognition and measurement provisions of Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees, and Related Interpretations" ("APB 25"). Under the intrinsic value method described in APB 25, no compensation expense was recorded because the exercise price of the employee stock options equaled the market price of the underlying stock on the date of grant. The fair value of stock options granted prior to the adoption of SFAS 123(R) was estimated at the date of grant using the Black-Scholes option-pricing model. No stock options were granted to employees in the three months ended March 31, 2006. Allscripts' management does not expect to grant options to employees in the future, and instead, expects to use awards of restricted stock as stock-based incentives to employees.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Software and Related Services

Software and related services revenue for the three months ended March 31, 2006 increased 97.9%, or \$14,004, from \$14,310 in 2005 to \$28,314 in 2006. Of this increase, \$8,130 in revenue is attributable to our acquisition of A4 in March 2006. The remaining increase of \$5,874, or 41.1% is attributable to an increase in our installed customer base, an increase in related maintenance revenue, and an increase in hardware revenue as a result of obtaining certain large contracts during the fourth quarter of 2005 and the first quarter of 2006.

Gross profit for software and related services increased 83.2%, or \$7,647, from \$9,186 in the first quarter of 2005 to \$16,833 in the first quarter of 2006. This increase in gross profit is a result of an increase in the overall installed customer base and related maintenance revenue, an increase in hardware revenue, and the contribution of gross profit from A4 since the date of acquisition, combined with a decrease in third-party royalties as a percent of revenue. Gross profit as a percentage of revenue decreased from 64.2% in the first quarter of 2005 to 59.5% for the same period in 2006. This decrease is due to the contribution of gross profit from the A4 product line, which tends to have lower margins than our traditional overall software and related services product lines and a larger percentage of our first quarter 2006 revenue being comprised of lower-margin hardware sales as a result of obtaining certain large contracts during the fourth quarter of 2005 and the first quarter of 2006.

Operating expenses for software and related services for the first quarter of 2006 increased 97.0%, or \$5,126, from \$5,284 in 2005 to \$10,410 in 2006. This increase in operating expenses is primarily the result of the inclusion of operating expenses from A4 since the acquisition, which added \$2,639 to such expenses, and the inclusion of \$951 of additional amortization expense related to the acquired intangible assets from A4. The remaining increase of \$1,536, or 29.1%, is attributable to an increase in our overall sales, marketing, and product support resources to handle the increased demand for our EHR and other clinical solutions products, and an increase in product research and development activity, of which \$1,201 and \$523, respectively, were capitalized pursuant to Statement of Financial Accounting Standard "SFAS" No. 86, "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed" in our software and related services segment.

Prepackaged Medications

Prepackaged medications revenue increased 17.0%, or \$1,675, from \$9,835 for the three months ended March 31, 2005 to \$11,510 for the same period in 2006. The increase is primarily due to an increase in revenue from wholesale customers from \$1,508 in first quarter of 2005 to \$2,538 in the same period of 2006, and an increase in sales to our direct customer base.

Gross profit for prepackaged medications for the three months ended March 31, 2006 increased 3.4%, or \$72, from \$2,112 in the first quarter of 2005 to \$2,184 in the same period in 2006. This increase in gross profit is related to an overall increase in prepackaged medication revenue, offset by an increase in lower-margin revenue to wholesale customers. Gross profit as a percentage of revenue decreased from 21.5% in the first quarter of 2005 to 19.0% in the same period of 2006. The decrease in gross profit as a percentage of revenue is primarily due to an increase in lower-margin revenue from wholesale customers as a percentage of total revenue.

Operating expenses for prepackaged medications for the three months ended March 31, 2006 increased 62.1%, or \$320, from \$515 in the first quarter of 2005 to \$835 in the same period for 2006. The increase was primarily due to an increase in our sales and marketing resources and due to an increase in bad debt expense.

Information Services

Information services revenue increased by 16.1%, or \$330, from \$2,050 in the first quarter of 2005 to \$2,380 in the same period of 2006. The increase in revenue is primarily attributable to platform development and license fees generated in the first quarter of 2006, which were absent in the comparable period in 2005.

Gross profit for information services for the three months ended March 31, 2006 increased 27.5%, or \$239, from \$869 in 2005 to \$1,108 in 2006. Gross profit as a percentage of revenue increased from 42.4% in the first quarter of 2005 to 46.6% in the first quarter of 2006. Such increase is attributable to an overall increase in revenue and improved margins related to platform development and license fees.

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Operating expenses for information services for the three months ended March 31, 2006 increased 6.9%, or \$50, from \$720 in the first quarter of 2005 to \$770 in the same period of 2006. The increase is primarily the result of an increase in marketing expenses, salaries and commissions.

Unallocated Corporate Expenses

Unallocated corporate expenses for the three months ended March 31, 2006 increased 44.2%, or \$1,889, from \$4,274 in the first quarter of 2005 to \$6,163 in the same period of 2006. The increase was primarily due to \$1,021 in non-recurring integration costs related to the A4 acquisition, an increase in corporate salaries and bonus expense, costs to improve our information systems, and an increase in legal expense.

Interest income

Interest income for the three months ended March 31, 2006 increased 36.7%, or \$322, from \$877 in the first quarter of 2005 to \$1,199 in the same period of 2006. The increase is primarily related to more favorable short-term interest rates on a comparable basis, offset by a decrease in interest income during March 2006 due to a decrease in overall cash and marketable securities resulting from the A4 acquisition and the repurchase of 1,250 shares of Allscripts common stock from IDX Investment Corporation ("IDX"), a subsidiary of General Electric Company ("GE").

Interest expense

Interest expense for the three months ended March 31, 2006 increased \$18, from \$877 in the first quarter of 2005 to \$895 in the same period of 2006. The increase is primarily due to interest incurred on the secured promissory note assumed in the A4 acquisition.

Income taxes

As a result of the A4 acquisition in March 2006, management has determined under the provisions of SFAS No. 109 "Accounting for Income Taxes" that it is more likely than not that Allscripts will generate adequate taxable income for the foreseeable future to realize the majority of its deferred tax assets. Accordingly, we reversed \$58,984 of our tax valuation allowance against goodwill in purchase accounting for the A4 acquisition. Approximately \$2,300 of the tax valuation allowance was not reversed during the first quarter of 2006 due to management's assessment as of March 31, 2006 of potential limitations on our net operating losses ("NOL") pursuant to Internal Revenue Code Section 382, which imposes an annual limitation on the future utilization of net operating losses. The \$2,300 in remaining tax valuation reserve as of March 31, 2006 is our estimate as of March 31, 2006 of the potential NOL limitations. The Section 382 analysis will be completed during the second quarter of 2006, and we will make any necessary adjustments to goodwill in purchase accounting at that time. For the three months ended March 31, 2006, we recorded a tax provision of \$810, using an effective tax rate of 38%.

Liquidity and Capital Resources

At March 31, 2006 and December 31, 2005, our principal sources of liquidity consisted of cash, cash equivalents and marketable securities of \$66,763 and \$146,063, respectively. The decrease of \$79,300 is primarily due to the following:

Operating activities

For the three months ended March 31, 2006, we generated \$9,236 in net cash provided by operations compared to \$1,385 for the same period in 2005. This increase of \$7,851 is primarily due to an increase in non-cash reconciling items of \$3,873, which is attributable to an increase of \$407 in stock based compensation, the incurrence of \$290 in non-cash A4 integration costs, an increase in depreciation and amortization of \$1,165 primarily due to A4 purchased intangibles and an increase of \$222 in bad debt provision, primarily due to the increase in revenue. The increase in cash provided by operations is also due to an increase of \$5,536 in accounts payable and accrued expenses on a quarter over quarter basis, primarily due to the growth of our business and costs incurred in connection with the A4 acquisition.

Investing activities

On March 2, 2006, we acquired all of the outstanding equity interests in A4 for approximately \$299,493, of which \$230,718 was paid in cash to former A4 shareholders during the first quarter of 2006 of which \$4,358 consists of acquisition-related transaction costs. The remaining \$68,775 of consideration was paid through the issuance of 3,500 shares of our common stock (based on the last reported sale price of \$19.65 per share of our common stock on the Nasdaq National Market on March 2, 2006). The cash component of the purchase price was offset by \$21,742 of cash obtained from the A4 acquisition. A total of \$1,056 of cash purchase price is unpaid and has been accrued for as of March 31, 2006.

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During the three months ended March 31, 2006, we used \$1,190 of cash for capital expenditures and, on February 7, 2006, we funded an additional convertible secured promissory note for the benefit of Medem in a principal amount of \$500, under a contract signed in November 2005.

Financing activities

On February 28, 2006, we completed our public offering of 8,395 shares of our common stock, which generated approximately \$140,991 in net proceeds after deducting underwriting discounts and commissions and transaction costs. All of the proceeds received from the sale of common stock were used to fund the acquisition of A4.

On March 9, 2006, we repurchased 1,250 shares of Allscripts common stock directly from IDX. We paid \$21,078, which is based on 95% of the February 28, 2006 public offering price of \$17.75.

For the three months ended March 31, 2006, we received \$2,520 from the exercise of stock options.

Allscripts' working capital decreased by 65.8%, or 74,592, for the three months ended March 31, 2006, from \$113,317 at December 31, 2005 to \$38,725 at March 31, 2006. The decrease is due to a decrease in cash, cash equivalents and short-term marketable securities, which is primarily the result of funding the net cash component of the A4 acquisition totaling \$207,920 and the repurchase of 1,250 shares of common stock from IDX totaling \$21,078, offset by the net proceeds of \$140,991 received in our common stock offering and by cash provided by operating activities. At March 31, 2006, we had an accumulated deficit of \$544,377, compared to \$545,700 at December 31, 2005.

Future Capital Requirements

We believe that our cash flow from operations in 2006 and our cash, cash equivalents and marketable securities of \$66,763 as of March 31, 2006 will be sufficient to meet the anticipated cash needs of our business for the next twelve months. Our primary needs for cash over the next twelve months will be to fund working capital, service approximately \$3,184 in interest payments on our debt instruments, fund capital expenditures in the range of \$6,500 to \$8,000, and fund contractual obligations and investment needs of our current business.

We cannot provide assurance that our actual cash requirements will not be greater than we expect as of the date of this report. We will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services and technologies, which might impact our liquidity requirements or cause us to issue additional equity or debt securities.

If sources of liquidity are not available or if we cannot generate sufficient cash flow from operations in 2006, 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.

The following table summarizes our significant contractual obligations as of March 31, 2006 and the effect such obligations are expected to have on our liquidity and cash in future periods assuming all obligations reach maturity:

	Total	Less than one year	1-3 years	3-5 years	More than 5 years
Contractual obligations:					
3.5% Senior Convertible Debentures	\$82,500	\$—	\$—	\$—	\$82,500
Semi-annual interest due on the 3.5% Senior Convertible Debentures	52,696	1,444	5,776	5,776	39,700
7.85% secured promissory note	3,380	181	537	628	2,034
Monthly interest due on the 7.85% secured promissory note	1,451	194	463	372	422
Non-cancelable operating leases	7,260	1,804	2,900	1,127	1,429
Acquisition payment obligations	1,140	1,140	—	—	—
Other contractual obligations	769	60	709	—	—
Total contractual obligations	\$149,196	\$4,823	\$10,385	\$7,903	\$126,085

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In July 2004, we completed the private placement of our Senior Convertible Debentures (“Notes”). We are obligated to pay approximately \$1,444 in interest payments every six months under the Notes, payable on January 15 and July 15 of each year. These Notes can be converted, in certain circumstances, into approximately 7,300 shares of common stock based upon a conversion price of approximately \$11.26 per share, subject to adjustment for certain events. The Notes became convertible on April 1, 2006 by virtue of the last reported sale price for Allscripts’ common stock having exceeded \$14.64 for twenty consecutive days in the thirty-day period prior to March 31, 2006. The Notes were convertible in the third and fourth quarters of 2005; however, no notes were converted during those periods. The timing of our obligation on the Notes to fund interest payments or make principal payments on the Notes may change based on whether the holders elect to convert the Notes. In addition, we may redeem some or all of the Notes for cash any time on or after July 20, 2009 at the Notes’ full principal amount plus accrued and unpaid interest, if any. Holders of the Notes may require Allscripts to repurchase some or all of the Notes on July 15, 2009, 2014 and 2019 or, subject to certain exceptions, upon a change of control of Allscripts.

In connection with the acquisition of A4, Allscripts assumed a secured promissory note with an aggregate principal amount of \$3,400 as of March 2, 2006, maturing on October 31, 2015. The promissory note bears interest at 7.85% per annum, and principal and interest are due monthly. In the event of prepayment in full or in part, Allscripts will be subject to a prepayment fee of 1% or more, as described in the related promissory note agreement, of the amount of principal prepaid on the promissory note. The promissory note is secured by the former corporate facilities of A4 and any lease or rental payments as defined in the related agreements.

As of March 31, 2006, \$1,056 and \$84 of the consideration related to the A4 acquisition and the August 2003 Advanced Imaging Concepts, Inc. (“AIC”) acquisition, respectively, had not been paid. Payment on the remaining AIC obligation will occur upon the receipt of the required acknowledgement from the AIC stockholders.

In connection with the corporate facilities lease agreement, Allscripts has provided to the lessor an unconditional irrevocable letter of credit in favor of the lessor in the amount of \$500 as security for the full and prompt performance by Allscripts under the lease agreement. The letter of credit may be drawn upon by the lessor and retained, used or applied by the lessor for the purpose of curing any monetary default or defaults of Allscripts under the lease. The letter of credit provides for an expiration date of one year from the commencement date of the lease, and will automatically extend for additional successive one-year periods through the term of the lease. As of March 31, 2006 and December 31, 2005, no amounts had been drawn on the letter of credit. Thus, no such obligations are included in the table above.

We have other letters of credit as security for full and prompt performance under various contractual arrangements totaling \$125. As of March 31, 2006 and December 31, 2005, no amounts had been drawn on the letters of credit. Thus, no such obligations are included in the table above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2006, we did not own any derivative financial instruments, but we were exposed to market risks, primarily changes in U.S. interest rates. Our Notes bear a fixed interest rate, and accordingly, the fair market value of the debt is sensitive to changes in interest rates. We have no cash flow or earnings exposure due to market interest rate changes for our fixed debt obligation.

As of March 31, 2006, we had cash, cash equivalents and marketable securities in financial instruments of \$66,763. Declines in interest rates over time will reduce our interest income from our investments. Based upon our balance of cash, cash equivalents and marketable securities as of March 31, 2006, a decrease in interest rates of 1.0% would cause a corresponding decrease in our annual interest income of approximately \$668.

Item 4. Controls and Procedures

As of March 31, 2006, our management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based on their review and evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are adequate and effective.

In connection with the evaluation by management, including our Chief Executive Officer and Chief Financial Officer, of our internal control over financial reporting, pursuant to Exchange Act Rule 13a-15(d), no changes during the quarter

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ended March 31, 2006 were identified that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except that due to our acquisition of A4 on March 2, 2006, A4's operating results were consolidated into Allscripts' operating results.

PART II. OTHER INFORMATION

Item 2C. Unregistered Sales of Equity Securities, Use of Proceeds and Stock Repurchases

The following table summarizes repurchases of our common stock in the three months ended March 31, 2006:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs</u>
January 1-31, 2006	—	—	—	—
February 1-28, 2006	—	—	—	—
March 1-31, 2006	1,250(1)	\$16.86	—	—
Total	<u>1,250</u>	<u>\$16.86</u>	<u>—</u>	<u>—</u>

(1) On March 9, 2006, we repurchased 1,250 shares of Allscripts common stock directly from IDX. Allscripts paid \$21,078, which is based on 95% of the February 28, 2006 public offering price of \$17.75.

Item 6. Exhibits

(a) Exhibits

See Index to Exhibits.

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>	<u>Reference</u>
2.1	Agreement of Merger, dated as of January 18, 2006, by and among Allscripts Healthcare Solutions, Inc., Quattro Merger Sub Corp., A4 Health Systems, Inc. and John P. McConnell, in his capacity as shareholder Representative	Incorporated herein by reference to Exhibit 2.1 to the Allscripts Healthcare Solutions, Inc. Current Report on Form 8-K filed on January 23, 2006
3.1	Amended and Restated Certificate of Incorporation of Allscripts Healthcare Solutions, Inc.	Incorporated herein by reference to Exhibit 4.1 to the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-3 filed on November 18, 2005 (SEC file no. 333-129816)
3.2	By-laws of Allscripts Healthcare Solutions, Inc.	Incorporated herein by reference to Exhibit 3.2 to Amendment No. 1 to the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 filed on December 7, 2000 (SEC file no. 333-49568)
4.1	Indenture, dated as of July 6, 2004, between Allscripts Healthcare Solutions, Inc. and LaSalle Bank N.A., as trustee, related to the issuance of 3.50% Convertible Senior Debentures Due 2024	Incorporated herein by reference to Exhibit 4.1 to the Allscripts Healthcare Solutions, Inc. Current Report on Form 8-K filed on July 15, 2004
4.2	Resale Registration Rights Agreement, dated as of July 6, 2004, between Allscripts Healthcare Solutions, Inc. and Banc of America Securities LLC, as representative of the initial purchasers of the 3.50% Convertible Senior Debentures Due 2024	Incorporated herein by reference to Exhibit 4.2 to the Allscripts Healthcare Solutions, Inc. Current Report on Form 8-K filed on July 15, 2004
10.1	Amended and Restated Strategic Alliance Agreement, dated as of January 18, 2006, by and between Allscripts Healthcare Solutions, Inc. and IDX Systems Corporation	Incorporated herein by reference to Exhibit 99.1 to the Allscripts Healthcare Solutions, Inc. Current Report on Form 8-K filed on January 19, 2006
10.2	Purchase Agreement, dated as of February 21, 2006, by and among Allscripts Healthcare Solutions, Inc., General Electric Company, IDX Systems Corporation and IDX Investment Corporation	Incorporated herein by reference to Exhibit 99.2 to the Allscripts Healthcare Solutions, Inc. Current Report on Form 8-K filed on February 21, 2006
10.3	Promissory Note, dated October 25, 2000, by K-5 Associates, LLC in favor of GE Life and Annuity Assurance Company	Filed herewith
10.4	Loan Assumption Agreement, dated August 1, 2005, by and among GE Life and Annuity Assurance Company, K-5 Associates, LLC, Robert S. Kadis, Harold L. Kadis and A4 Realty, LLC	Filed herewith
10.5	Unconditional Guaranty, dated August 1, 2005, by A4 Health Systems, Inc. to and for the benefit of GE Life and Annuity Assurance Company	Filed herewith
10.6	Noncompetition, Nonsolicitation and Stock Sale Forbearance Agreement, dated as of January 18, 2006, by and among Allscripts Healthcare Solutions, Inc., John P. McConnell and McConnell Venture Partners Fund, LLC	Filed herewith
31.1	Rule 13a-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a) Certification of Chief Financial Officer	Filed herewith
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer	Filed herewith

PROMISSORY NOTE

\$4,400,000.00

October 25, 2000
Cary, North Carolina
GELAAC Loan No. 3982

1. Promise to Pay.

FOR VALUE RECEIVED, the undersigned, K-5 ASSOCIATES, LLC, a North Carolina limited liability company ("Borrower"), promises to pay in lawful money of the United States of America to the order of GE LIFE AND ANNUITY ASSURANCE COMPANY, a Virginia corporation ("Lender"), at P.O. Box 490, Seattle, Washington 98111-0490, ATTN: Real Estate Department, or such other place either within or without the State of Washington as Lender may designate in writing from time to time, the principal sum of Four Million Four Hundred Thousand and No/100 Dollars (\$4,400,000.00), with interest from the date hereof on the unpaid principal balance at the rate set forth below.

2. Interest.

Interest shall accrue on the unpaid principal balance at a rate from the date hereof to the Maturity Date at Seven and Eighty-Five Hundreths Percent (7.85%) per annum.

3. Payments and Term.

Principal and interest shall be due and payable as follows:

- (a) A payment of all interest to accrue hereon from the Disbursement Date to and including the last day of the month during which the Disbursement Date occurs shall be due and payable on the Disbursement Date. For purposes hereof, the "Disbursement Date" shall be the date on which disbursement of loan proceeds occurs.
- (b) Monthly payments of principal and interest in the sum of Forty-One Thousand Six Hundred Sixty-Nine and No/100 Dollars (\$41,669.00) each shall be due and payable on the first day of each calendar month, commencing on the first day of the second calendar month following the Disbursement Date and continuing on the first day of each calendar month thereafter to and including October 1, 2015. These monthly payments are based upon the Fifteen (15) year amortization period beginning on November 1, 2000.
- (c) The entire indebtedness evidenced by this Note, if not sooner paid, shall be due and payable on October 31, 2015, the Maturity Date.

All payments on account of the indebtedness evidenced by this Note shall be first applied to interest, costs and prepayment fees (if any) and then to principal. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months, except that interest for a

portion of a month (such as may be required under paragraph 3 (a) above) shall be computed on the basis of a 365-day year (or a 366-day year during a leap year). For purposes of this Note, the term "Loan Year" means each successive period of twelve (12) months, with the first such period beginning on November 1, 2000.

4. Prepayment.

This Note may be prepaid in full or in part, upon giving the holder of this Note ("Holder") thirty (30) days prior written notice, by paying, in addition to the principal amount (and if prepaid in full, accrued interest and all other sums due under the terms hereof) a prepayment fee ("Prepayment Fee"), equal to the present value of the series of Payment Differentials from the prepayment date to the Maturity Date discounted using the Discount Factor and the Number of Payments or Periods (monthly compounding) calculated as follows:

- (a) If the interest rate of this Note under paragraph 2 above ("Interest Rate") is less than the "Ask Yield" of the non-callable United States Government Treasury Note with a maturity closest to the mid-point between the fifth business day preceding the prepayment date and the Maturity Date as published in The Wall Street Journal on the fifth (5th) business day preceding the prepayment date (the "Treasury Yield") (and if more than one such issue, then the issue with the coupon rate closest to the interest rate then in effect on this Note) plus one-half of one percent (0.50%) (the "Reinvestment Yield"), the Prepayment Fee will be one percent (1%) of the amount of principal prepaid.
- (b) If the Interest Rate equals or exceeds the Reinvestment Yield, the Prepayment Fee will be the greater of:
 - (i) One percent (1%) of the amount of principal prepaid, OR
 - (ii) The present value of the series of Payment Differentials from the prepayment date to the Maturity Date. The present value will be calculated by the Holder using a financial calculator or present value tables selected by the Holder and the (i) Discount Factor, (ii) Number of Payments or Periods, and (iii) Payment Differential, as said terms are hereinafter defined:
 - a) The Discount Factor is equal to one-twelfth of the Reinvestment Yield.
 - b) The Number of Payments or Periods is equal to the number of months left to the Maturity Date (rounded up to the nearest whole number).
 - c) The Payment Differential is the difference between the monthly payment which amortizes the principal prepaid to zero over the Number of Payments or Periods, calculated, first, at the Interest Rate (if this Note is prepaid in full this is the monthly payment stated in this Note) and, second, at the Reinvestment Yield.

No Prepayment Fee shall be due if this Note is prepaid during the sixty (60) days prior to the Maturity Date. Any partial prepayment shall be applied upon payments due hereon in the inverse order of their respective due dates.

If the publication The Wall Street Journal is discontinued or publication of the yield of United States Treasury notes in The Wall Street Journal is discontinued, Holder shall, in its sole discretion, designate some other daily financial or governmental publication of national circulation.

Any and all prepayments of the principal amount of this Note, whether voluntary or involuntary, shall be subject to the terms of this provision 4, and include receipt by the Lender of all or a part of the principal balance and the outstanding interest due pursuant to this Note prior to the date when same is due, irrespective of the source of such payment and irrespective of whether same was paid by the Borrower “voluntarily” or “involuntarily”. Without limiting the generality of the foregoing, prepayment shall include such payments from the Borrower, irrespective of whether before or after default, acceleration of the entire principal balance by virtue of default, and any payment of the principal balance and outstanding interest after the institution of foreclosure proceedings and upon sale in foreclosure.

In the event that such prepayment of the principal amount of this Note is tendered, whether as a result of foreclosure proceedings or otherwise, then Borrower shall pay Lender in full at any time during the term of this Note, the applicable Prepayment Fee referred to above.

Borrower acknowledges that the Prepayment Fees set forth above have been agreed upon by Borrower in order to provide Lender with partial compensation for the cost of reinvesting the proceeds of this subject loan transaction and for the loss of the contracted return on the subject loan. Borrower acknowledges that said Prepayment Fee is reasonable and is not a penalty.

5. Restrictions on Transfer and Encumbrance.

Borrower and Lender acknowledge and agree that the Deed of Trust referred to in paragraph 9 below contains the following paragraphs 4.1 and 4.2:

4.1 Restrictions on Transfer or Encumbrance of the Property.

- (a) A “Transfer” is: any sale (by contract or otherwise), encumbrance, conveyance or other transfer of all or any interest in the Property, or any change in the ownership of any stock interest in a corporate Trustor, in the ownership of any membership interest or in the manager of a limited liability company Trustor, in the ownership of any general partnership interest in any general or limited partnership Trustor, or in the ownership of any beneficial interest in any other Trustor which is not a natural person or persons (including without limitation a trust); or any change in the ownership of any stock, membership, general partnership or other beneficial interest in any corporation, limited liability company, partnership, trust or other entity, organization or association directly or indirectly owning an interest in Trustor, or a change in the manager of a limited liability company. A change in the ownership of a limited partnership interest in a limited partnership shall not be deemed a “Transfer.”

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- (b) In the event of a Transfer without Beneficiary's prior written consent, Beneficiary may at its sole option declare the Transfer an event of default under this Deed of Trust and invoke any remedy or remedies provided for in paragraph 8.1 hereof, or may at its sole option consent to such Transfer. Beneficiary may condition its consent to a Transfer upon the payment of a fee to Beneficiary, or an increase in the rate of interest due under the Note, or the items in paragraph 4.1(d) below, or any combination of the foregoing. Neither of the foregoing options shall apply, however, in the case of a Transfer under any will, trust or applicable law of descent arising because of the death of an individual so long as Beneficiary is given prompt notice of the Transfer and the transferee. Beneficiary's consent to a Transfer or its waiver of an event of default by reason of a Transfer shall not constitute a consent or waiver of any right, remedy or power accruing to Beneficiary by reason of any subsequent Transfer.
- (c) Beneficiary will give its written consent to Transfers of interests in Trustor or of interests in an entity with an ownership interest in Trustor to the existing owners of the Trustor as of the date of this Deed of Trust, to the transferor's spouse or lineal descendants or to an estate planning trust whose trustees and beneficiaries are the transferor or the transferor's spouse or lineal descendants, or to a trust, corporation, partnership or limited liability company composed of such persons or subentities composed by such persons so long as one or all of Robert S. Kadis, Harold L. Kadis, Daniel S. Kadis and Jonathon C. Kadis hold, directly or indirectly, a controlling interest and manage the owner of the Property, if Trustor gives Beneficiary prior written notice accompanied by copies of the proposed Transfer documents and a \$1,000.00 transfer review fee.
- (d) For any Transfer permitted under this Deed of Trust or requested by Trustor, Beneficiary may condition its consent upon: the Property having been and assurances that it shall continue to be well maintained and managed in a manner reasonably satisfactory to Beneficiary; Beneficiary's reasonable approval of the Transfer terms, documents and background materials; there being no uncured event of default under this Deed of Trust; Trustor furnishing an endorsement to Beneficiary's title insurance policy insuring the continued validity and priority of the lien of this Deed of Trust following the Transfer and such subordination agreements and other documents as may be required by Beneficiary or its title company to issue the endorsement. Unless Beneficiary in its sole discretion otherwise agrees in writing at that time, no Transfer shall release the transferor from any liability under the Loan Documents or the environmental Indemnity. By accepting a Transfer, the transferee assumes any and all liability of the transferor under the Loan Documents and the environmental Indemnity to the extent the transferor has any personal liability. At Beneficiary's request, the parties shall execute agreements, guaranties and indemnities in form and substance acceptable to Beneficiary. Regardless whether Beneficiary consents to a Transfer request, Trustor agrees to pay all of Beneficiary's out-of-pocket expenses incurred in connection with any Transfer request, including without limitation title fees and attorneys' fees and costs, and Beneficiary may condition its willingness to consider a Transfer request upon a deposit to pay for Beneficiary's expenses.

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- 4.2 Loan Assumption Provision. Notwithstanding any provision of this Deed of Trust to the contrary, Beneficiary will consent to one sale of the Property and assumption by the purchaser of the indebtedness secured hereby, provided that:
- (a) Trustor is not then in default under this Deed of Trust;
 - (b) The purchaser of the Property, the financial statements, financial strength, tax returns and credit history of the purchaser, the sale agreement and related documents, and all aspects of the sale are completely satisfactory to Beneficiary;
 - (c) The purchaser evidences a history of property management satisfactory to Beneficiary or contracts for management of the Property with a property management firm satisfactory to Beneficiary;
 - (d) If the amount then due on the Note exceeds seventy-five percent (75%) of the sale price of the Property, the balance due on the Note, at the Beneficiary's election, must be reduced, by payment thereon, to an amount which does not exceed seventy-five percent (75%) of the sale price;
 - (e) Beneficiary receives in cash an assumption fee of the greater of Five Thousand and No/100 Dollars (\$5,000.00) or One Percent (1.00%) of the outstanding loan balance at the time of the assumption, plus its legal and administrative expenses, incurred in connection with such sale and assumption;
 - (f) Trustor furnishes to Beneficiary, at Trustor's expense, an endorsement to Beneficiary's title insurance policy insuring the continued validity, enforceability and priority of the Deed of Trust following the assumption. The form and content of the endorsement shall be satisfactory to Beneficiary. If required by the Beneficiary or the title Insurer, the Trustor shall furnish subordination agreements from tenants of the Property and other necessary parties in form and substance acceptable to the Beneficiary and the title insurer;
 - (g) Unless Beneficiary in its sole discretion otherwise agrees in writing at that time, no such sale or assumption shall release Trustor or any guarantor or other person from liability, or otherwise affect the liability of Trustor or any such guarantor or other person, for payment of the indebtedness secured hereby;
 - (h) In the event the Loan was made with a requirement imposed upon the Trustor to complete any specified repairs of the Property, the Trustor shall not be entitled to a consent by Beneficiary pursuant to the terms of this provision until such repairs have been completed to Beneficiary's satisfaction;
 - (i) The Beneficiary may, at its option, require tax reserves as referred to in paragraph 3.1 of this Deed of Trust, whether or not previously waived conditionally or otherwise, as a condition to its consent.

6. Default.

- (a) The occurrence of any one or more of the following shall constitute an event of default under this Note:
- (i) Failure to make any payment of principal or interest when due hereon, followed by the failure to make such payment within ten (10) days after written notice thereof given to Borrower by Lender; provided, however, that Lender shall not be obligated to give Borrower written notice prior to exercising its remedies with respect to such default if Lender had twice previously given Borrower during that calendar year a notice of default for failure to make a payment of principal or interest hereon.
 - (ii) The occurrence of any other event of default under the Deed of Trust referred to in paragraph 9 below.
- (b) Time is of the essence. If an event of default occurs under this Note,
- (i) the entire principal balance hereof and all accrued interest shall, at the option of Lender, without notice, bear interest at a rate from time to time equal to five (5) percentage points over what would otherwise be the Note rate (or the maximum rate permitted by applicable law if that is less) from the date of the event of default until such event of default is cured and
 - (ii) the entire principal balance hereof and all accrued interest shall immediately become due and payable at the option of Lender, without notice. Lender's failure to exercise any option hereunder shall not constitute a waiver of the right to exercise the same for any subsequent event of default.

7. Late Charges.

Borrower acknowledges that, if any payment under this Note is not made when due, Lender will as a result thereof incur costs not contemplated by this Note, the exact amount of which would be extremely difficult or impracticable to ascertain. Such costs include without limitation processing and accounting charges. Accordingly, Borrower hereby agrees to pay to Lender with respect to each payment which is not received by Lender within fifteen (15) days after such payment is due under this Note a late charge equal to Four Percent (4%) of the amount of the payment. Borrower and Lender agree that such late charge represents a fair and reasonable estimate of the costs Lender will incur by reason of such late payment. Acceptance of such late charge by Lender shall in no event constitute a waiver of the default with respect to the overdue amount, and shall not prevent Lender from exercising any of the other rights and remedies available to Lender.

8. Costs and Attorneys' Fees.

If an event of default occurs under this Note and Lender consults an attorney regarding the enforcement of any of its rights under this Note or the Deed of Trust, or if this Note is placed

in the hands of an attorney for collection, or if suit be brought to enforce this Note or the Deed of Trust, Borrower promises to pay all costs thereof, including attorneys' fees. Said costs and attorneys' fees shall include, without limitation, costs and attorneys' fees in any appeal or in a proceeding under any present or future federal bankruptcy act or state receivership.

9. **Fees and Expenses.** As used herein, references to reimbursement for fees and expenses shall mean the actual amounts charged or actual costs incurred, as established by the market or the Lender's customary practice or procedure, as the case may be, and references to attorneys' fees shall mean those reasonable fees actually incurred by the Lender based upon its attorneys' customary hourly rate multiplied by the amount of time actually spent without regard to any statutory presumption. *Section 8.5 of the Deed of Trust referred to below, regarding the application of the proceeds of any sale under the Deed of Trust, is hereby incorporated herein by this reference.*

10. Security.

This Note is secured by a Deed of Trust, Assignment of Rents and Leases and Security Agreement ("Deed of Trust") and a separate Assignment of Rents and Leases ("Assignment") covering property located in Wake County, North Carolina ("Property"). It is also secured by an Unconditional Guaranty executed by ROBERT S. KADIS and HAROLD L. KADIS ("Guarantors") as the joint and several obligation of each.

11. Waiver of Presentment, Etc.

Borrower hereby waives presentment and demand for payment, notice of dishonor, protest and notice of protest.

12. Limited Recourse Debt.

Except as otherwise provided herein and the Indemnity of the Borrower of even date, the Borrower is hereby released from all personal liability hereunder to the extent such release does not operate to invalidate the lien of the Deed of Trust securing this Note. In the event of foreclosure of the Deed of Trust or other enforcement of the collection of the indebtedness evidenced by this Note, Lender agrees, and any holder hereof shall be deemed by acceptance hereof to have agreed, not to take a deficiency judgment against Borrower with respect to said indebtedness except as may be provided as follows in this paragraph. Notwithstanding the foregoing, however, Borrower shall be fully and personally liable to the holder of this Note for:

- (i) All damages suffered by the holder on account of waste to the Property, fraud or willful misrepresentation committed by Borrower;
- (ii) Any retention of rental income or other income of the Property after an event of default has occurred which remains uncured after any applicable notice and opportunity to cure, to the extent that any such retention is not applied to the operation of the Property (i.e., capital and operating expenses), and the retention of security deposits or other deposits made by tenants of the Property which are not paid to tenants when due or

transferred to Lender or any other party acquiring the Property at a foreclosure sale or any transfer in lieu of foreclosure;

- (iii) Any property taxes or assessments accrued prior to the Lender's acquisition of title to the Property;
- (iv) The replacement cost of any personal property or fixtures encumbered by the Deed of Trust which are removed or disposed of by Borrower and not replaced as required by the Deed of Trust and then to the extent of the replacement cost of such personal property or fixtures;
- (v) The misapplication of any proceeds to the full extent of misapplied proceeds under any insurance policies or awards resulting from condemnation or the exercise of the power of eminent domain or by reason of damage or destruction to any portion of the Property or any building or buildings located thereon;
- (vi) Any loss resulting from Borrower's failure to maintain hazard or liability insurance as required under the terms of the Deed of Trust.
- (vii) All damages, liabilities, costs and expenses, including attorneys' fees, incurred by the Lender due to the presence of any hazardous, toxic and dangerous wastes, substances and materials, including asbestos, on the Property and due to any breach of covenant, breach of warranty or misrepresentation by Borrower under the Deed of Trust, the Environmental Indemnity, or any of the other loan documents delivered in connection with the loan evidenced by this Note with respect to hazardous, toxic and dangerous wastes, substances and materials, and Borrower's failure to perform any obligations under the Environmental Indemnity. There will be no liability of the Borrower for such waste, substances and materials which are introduced to the Property subsequent to a permitted transfer of the Property by the Borrower or to the Lender's acquisition of title as a result of foreclosure or a deed in lieu of foreclosure; provided, however, the Borrower shall bear the burden of proof that the introduction and initial release of such hazardous waste, substances or materials (i) occurred subsequent to the transfer date, (ii) did not occur as a result of any action of the Borrower, and (iii) did not occur as a result of continuing migration or release of any hazardous waste, substances or materials introduced prior to the transfer date, in, on, under or near the Property;
- (viii) Any fees and costs including attorney fees incurred in enforcing and collecting any amounts due under this provision 12;
- (ix) The full amount due under this Note including accrued interest and other amounts due with respect to the Deed of Trust, the Assignment and any other loan documents executed by the Borrower in connection with this Note if there is a transfer of title to the Property for which the Lender's

consent is required pursuant to the terms of the Deed of Trust without the Lender's consent; and

- (x) The full amount due under this Note including accrued interest and other amounts due with respect to the Deed of Trust, the Assignment and any other loan documents executed by the Borrower in connection with this Note if subordinate financing is placed against the Property without the Lender's consent.

The foregoing limitation on personal liability is not intended and shall not be deemed to constitute a forgiveness of the indebtedness evidenced by this Note or a release of the obligation to repay said indebtedness according to the terms and provisions hereof, but shall operate solely to limit the remedies otherwise available to the holder hereof for the enforcement and collection of such indebtedness. As used in this paragraph, the term "Borrower" includes:

- (a) Borrower (and each of them, if more than one);
- (b) all general partners of any Borrower which is a partnership; and
- (c) all joint venturers of any Borrower which is a joint venture.

The personal liability hereunder of all persons included within the term "Borrower" shall be joint and several. The provisions of this paragraph shall control over any conflicting provisions of this Note, the Deed of Trust or the Assignment.

13. Loan Charges.

Interest, fees and charges collected or to be collected in connection with the indebtedness evidenced hereby shall not exceed the maximum, if any, permitted by any applicable law. If any such law is interpreted so that said interest, fees and/or charges would exceed any such maximum and Borrower is entitled to the benefit of such law, then:

- (i) such interest, fees and/or charges shall be reduced by the amount necessary to reduce the same to the permitted maximum; and
- (ii) any sums already collected from Borrower which exceeded the permitted maximum will be refunded. Lender may choose to make the refund either by treating the payments, to the extent of the excess, as prepayments of principal or by making a direct payment to Borrower. No Prepayment Fee shall be assessed on prepayments under this paragraph. The provisions of this paragraph shall control over any inconsistent provision of this Note or the Deed of Trust or any other document executed in connection with the indebtedness evidenced hereby.

14. Governing Law.

This Note shall be construed, enforced and otherwise governed by the laws of the State of North Carolina.

15. Lender.

As used herein, the term “Lender” shall mean holder and owner of this Note.

IN WITNESS WHEREOF, Borrower has caused this Promissory Note to be executed under seal by its duly authorized members as of the day and year first above written.

K-5 ASSOCIATES, LLC,
a North Carolina limited liability company

By: /s/ Harold L. Kadis

HAROLD L. KADIS
the Manager

Recording Requested By and
When Recorded Mail To:
GE Life and Annuity Assurance Company
707 East Main Street
Suite 1300-A
Richmond, Virginia 23219-3310
Attention: Mr. Peter Smith
GELAAC Loan No. 3982

LOAN ASSUMPTION AGREEMENT

THIS AGREEMENT is dated this 1st day of August, 2005, and is made by GE LIFE AND ANNUITY ASSURANCE COMPANY, a Virginia corporation ("Lender"); K-5 ASSOCIATES, LLC, a North Carolina limited liability company ("Borrower"); ROBERT S. KADIS and HAROLD L. KADIS ("Guarantors"); and A4 REALTY, LLC, a North Carolina limited liability company ("Purchaser").

RECITALS

A. Loan Documents. On or about October 25, 2000, Lender made a loan ("Loan") to Borrower in the principal sum of Four Million Four Hundred Thousand and No/100 Dollars (\$4,400,000.00) evidenced by the following (together with this Agreement, the "Loan Documents"):

1. Promissory Note dated October 25, 2000 ("Note") in the Loan amount.
2. Deed of Trust, Assignment of Rents and Leases and Security Agreement dated October 25, 2000, recorded with the Wake County Register of Deeds on October 25, 2000, in Book 008715, Page 01964, and re-recorded on November 9, 2000, in Book 8729, Page 2323.
3. Assignment of Rents and Leases (the "Assignment") dated October 25, 2000, recorded with the Wake County Register of Deeds on October 25, 2000, in Book 008715, Page 01998, and re-recorded on November 9, 2000, in Book 008729, Page 2359.
4. UCC Financing Statement filed with the North Carolina Secretary of State under Document No. 00-007582.
5. Unconditional Guaranty (the "Guaranty") dated October 25, 2000, executed by Guarantors.
6. An Indemnity regarding environmental matters dated October 25, 2000.

B. Permitted Transfer. Paragraph 4.1 of the Deed of Trust prohibits the transfer of the Property without the prior written consent of Lender.

C. Request for Consent to Transfer. Borrower has asked Lender to consent to the transfer of the Property to Purchaser and Purchaser's assumption of the Loan pursuant to provision 4.2 of the Deed of Trust. Lender is willing to do so upon the terms below.

THEREFORE, the parties agree as follows:

1. Purchaser's Acknowledgement of Loan Documents. Purchaser acknowledges that it is fully familiar with the terms of the Loan Documents and that they express the entire understanding of the parties regarding the Loan.

2. Purchaser's Assumption of Loan Obligations. Purchaser assumes and agrees to perform all of Borrower's obligations under the Loan Documents. However, Purchaser shall be personally liable on the Note only to the extent that Borrower has been liable; that is, the extent of the personal liability of Purchaser shall at all times be the same as if Purchaser had been the original maker of the Note without the release referred to in the following paragraph 3.

3. Borrower's and Guarantors' Liability. Borrower and Guarantors are hereby relieved of personal liability for acts or occurrences arising out of matters occurring after the date hereof, and, as to matters where the time when such act or occurrence took place is in dispute, the Borrower and Guarantors shall have the burden of proof that such act or occurrence took place subsequent to the date hereof.

4. Liability of Borrower and Purchaser. Purchaser and Borrower shall be jointly and severally liable under the Note and all other Loan Documents to the extent provided therein but subject to the terms and limitations in this Agreement.

5. Loan Modification. The Loan is modified as provided herein, and the Deed of Trust is further modified as follows:

Trustor Name(s); Matters Affecting Financing Statement Filings. At the request of Beneficiary, Trustor shall execute a certificate in form satisfactory to Beneficiary listing the trade-names or fictitious business names under which Trustor intends to operate the Property or any business located thereon and representing and warranting that Trustor does business under no other trade names or fictitious business names with respect to the Property. Trustor will not change any of the following without notifying the Beneficiary of such change in writing at least thirty (30) days prior to the effective date of such change and without first obtaining the prior written consent of the Beneficiary:

- (a) Trustor's name or identity (including its trade name or names);
- (b) if Trustor is an individual, Trustor's principal residence;
- (c) if Trustor is an organization, Trustor's corporate, partnership or other structure;

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- (d) if Trustor is an organization, Trustor's jurisdiction of organization (i.e., the jurisdiction [State] under whose law the Trustor is organized); or
 - (e) if Trustor is an organization, Trustor's place of business (if Trustor has only one place of business) or Trustor's chief executive office (if Trustor has more than one place of business);

Upon any change in the matters referred to above (if permitted hereunder), Trustor will, upon request of Beneficiary, execute any financing statement amendments, additional financing statements and other documents required by Beneficiary to reflect such change.

This Deed of Trust shall be effective as a Financing Statement filed as a fixture filing with respect to all goods which are or are to become fixtures related to the Property. The information below is provided in connection with the filing of this instrument as a Financing Statement, and the Trustor hereby represents and warrants it to be true and correct as of the date of this instrument:

The name and address of the record owner of the real estate described in this instrument is:

A4 Realty, LLC, a North Carolina limited liability company
5501 Dillard Drive
Cary, North Carolina 27511
Attention: Ms. Cindy Pittman

- (b) the name, mailing address and, if Debtor is not an individual, type of organization, jurisdiction or organization and organizational number (if any) of the Debtor is:

A4 Realty, LLC, a North Carolina limited liability company
5501 Dillard Drive
Cary, North Carolina 27511
Attention: Ms. Cindy Pittman
Organizational Number: NC-787453

- (c) The name and address of the Secured Party is:

GE Life and Annuity Assurance Company, a Virginia corporation
707 East Main Street
Suite 1300-A
Richmond, Virginia 23219-3310

Trustor specifically authorizes Beneficiary to file such Uniform Commercial Code Financing Statements before, on or after the date hereof, and to file such amendments and continuation statements, all as Beneficiary determines necessary or desirable from time to time to perfect or continue the lien of Lender's security interest in the Property.

6. Consent to Conveyance.

- (a) Lender consents to Borrower's transfer of the Property to Purchaser and agrees that the transfer will not constitute a default under the Deed of Trust.
- (b) Borrower and Purchaser agree that Lender's consent to transfer of the Property does not constitute a waiver of the provisions of paragraph 4.1 of the Deed of Trust and that, upon closing of the transfer of the Property to Purchaser, all further sales, conveyances, encumbrances and transfers of the Property will be subject to paragraph 4.1 of the Deed of Trust. No subsequent transfer shall be permitted pursuant to paragraph 4.2 of the Deed of Trust, and said paragraph 4.2 is hereby deleted from Article 4. of the Deed of Trust and from the corresponding restatement of the same in the Note.

7. Assumption Fee, Lender's Expenses. An Assumption Fee in the amount of Thirty-Five Thousand Three Hundred Eighteen and 85/100 Dollars (\$35,318.85) must be paid to the Lender in consideration of Lender's consent to transfer of the Property to Purchaser, and the Lender must also be paid a Loan Event Fee in the amount of Three Thousand Five Hundred and No/100 Dollars (\$3,500.00) and all of Lender's legal and administrative expenses in connection with this transfer and Agreement as a condition to such Agreement.

8. Notice to Purchaser. Purchaser requests that all notices under the Loan Documents be given to the address indicated above in this Agreement.

9. Attorneys' Fees. If any suit or action is brought by Lender to enforce or interpret the terms of this Agreement, the Transferee shall pay the Lender's costs and expenses, including reasonable attorneys' fees, incurred in such suit or action. Such fees shall include, without limitation, attorneys' fees incurred at or in preparation for any trial, appeal or review or in any bankruptcy proceeding.

10. Conditions. This Agreement is effective only when all of the following conditions are satisfied:

- (a) A deed conveying to Purchaser fee title to the Property has been recorded in the land records of Wake County, North Carolina.
- (b) This Agreement has been duly executed by all parties in the manner indicated and has been recorded in the land records of Wake County, North Carolina.
- (c) UCC Amendment Statements naming Purchaser as debtor and in a form reasonably acceptable to Lender have been filed with the Secretary of State of North Carolina.
- (d) Purchaser and its sole member have executed and delivered to the Lender an Environmental Indemnity with respect to environmental matters acceptable to Lender, in addition to that previously executed by the Borrower and Guarantors.

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- (e) Purchaser's sole member has executed and delivered to the Lender an Unconditional Guaranty of the Loan.
 - (f) Borrower or Purchaser has paid all of Lender's expenses and fees arising out of this transfer and Agreement, including the Assumption Fee, Loan Event Fee, and title, title endorsement, recording, attorney's fees, and other out-of-pocket costs.

11. Guaranty and Environmental Indemnity. By their signatures, the Guarantors agree that the Guaranty and Environmental Indemnity are modified to reflect the foregoing terms, that the Guaranty and Environmental Indemnity remain in effect, and that this Agreement does not impair the validity of the Guaranty or Indemnity or Guarantors' liability under the Guaranty or Indemnity except as referred to in this Agreement.

12. Miscellaneous.

- (a) The principal amount due on the Loan as of July 1, 2005, after application of the payment due on that date was Three Million Five Hundred Thirty-One Thousand Eight Hundred Eighty-Four and 60/100 Dollars (\$3,531,884.60).
- (b) Borrower represents and warrants to Lender that it has no defenses or claims of offset to payment of the Loan or enforcement of the Loan Documents or any other defenses or offsets with respect of Lender's lending of funds to Borrower. As further consideration for this Agreement, Borrower and Purchaser release Lender from any and all liability, known or unknown, arising out of any act or circumstance to date with respect to the Loan or any collateral for repayment of the Loan.
- (c) Each person included within Borrower and Purchaser warrants to Lender that it has full right, power and authority to enter into this Agreement and to perform all its obligations, and that all information and materials submitted to Lender in connection with the request for this modification contain no material misstatement or misrepresentation nor omit to state any material fact or circumstance.
- (d) This document constitutes the entire agreement among the parties with respect to the assumption of the Loan and shall not be amended, modified or terminated except by a writing signed by the party to be charged therewith.
- (e) Except as provided in this Agreement, the terms of the Loan Documents remain in full effect and are ratified. This Agreement is not intended to and shall not be construed to impair the validity, priority or enforceability of the Deed of Trust or the other Loan Documents.
- (f) This Agreement is binding upon and shall inure to the benefit of the parties and their respective heirs, personal representatives, successors and assigns.
- (g) This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one instrument.

(h) This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina.

DATED the day and year first above written.

“BORROWER”

K-5 ASSOCIATES, LLC,
a North Carolina limited liability company

By: /s/ Harold L. Kadis

HAROLD L. KADIS

In: Manager

NORTH CAROLINA, _____ COUNTY.

I, a Notary Public of the County and State aforesaid, certify that Harold L. Kadis, personally came before me this day and acknowledged that he is a member of K-5 Associates, LLC, a North Carolina limited liability company, and that by authority duly given and as the act of the limited liability company, the foregoing instrument was signed in its name by its member, as an act of, and for and on behalf of, said limited liability company. Witness my hand and official stamp or seal, this _____ day of _____, 2005.

My commission expires:

Notary Public

“PURCHASER”

A4 REALTY, LLC,
a North Carolina limited liability company

By: /s/ Cindy Pittman

CINDY PITTMAN

Manager

NORTHCAROLINA, _____ COUNTY.

I, a Notary Public of the County and State aforesaid, certify that Cindy Pittman, personally came before me this day and acknowledged that she is the Manager of A4 Realty, LLC, a North Carolina limited liability company, and that by authority duly given and as the act of the limited liability company, the foregoing instrument was signed in its name by its Manager, as an act of, and for and on behalf of, said limited liability company. Witness my hand and official stamp or seal, this _____ day of _____, 2005.

My commission expires:

Notary Public

“LENDER”

GE LIFE AND ANNUITY ASSURANCE
COMPANY, a Virginia corporation

ATTEST:

/s/ [Illegible]

Its: Investment Officer

Secretary

_____, _____ COUNTY

I, a Notary Public of the County and State aforesaid, certify that _____ personally came before me this day and acknowledged that (s)he is an Investment Officer of GE Life and Annuity Assurance Company, a Virginia corporation, and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by _____ as its investment officer, sealed with its corporate seal and attested by its _____ Secretary as an act of, and for and on behalf of, said corporation. Witness my hand and official stamp or seal, this _____ day of _____, 2005.

My commission expires:

Notary Public

“GUARANTORS”

/s/ Robert S. Kadis (SEAL)
ROBERT S. KADIS

/s/ Harold L. Kadis (SEAL)
HAROLD L. KADIS

NORTHCAROLINA, _____ COUNTY.

I, a Notary Public, do hereby certify that Robert S. Kadis personally appeared before me this day and acknowledged the due execution of the foregoing instrument. Witness my hand and official stamp or seal, this _____ day of _____, 2005.

My commission expires:

Notary Public

NORTHCAROLINA, _____ COUNTY.

I, a Notary Public, do hereby certify that Harold L. Kadis personally appeared before me this day and acknowledged the due execution of the foregoing instrument. Witness my hand and official stamp or seal, this _____ day of _____, 2005.

My commission expires:

Notary Public

THIS DOCUMENT DRAFTED BY:

Duane L. Paulson
BEST & FLANAGAN LLP
225 South Sixth Street
Suite 4000
Minneapolis, Minnesota 55402
(612) 349-5695

EXHIBIT A
TO
LOAN ASSUMPTION {AND MODIFICATION} AGREEMENT

LEGAL DESCRIPTION

The Property which is subject of this Agreement is situated in the County of Wake, State of North Carolina, and is legally described as follows:

Being all of that certain tract of land containing 5.562+/- acres designated as Lot 8R shown on plat of survey entitled "Recombination Map/CROSSROADS II", prepared by Murphy Hobson Sacks, dated October, 1995, and recorded in Book of Maps 1995, Page 1742, in the Wake County, North Carolina, Public Registry, reference to which is hereby made for a more particular description, said real property located in Swift Creek Township, Wake County, North Carolina.

TOGETHER WITH appurtenant easement rights contained in Restrictive Covenants recorded in Book 3742, Page 196, Wake County Registry.

UNCONDITIONAL GUARANTY

THIS GUARANTY is made this 1st day of August, 2005, by A4 HEALTH SYSTEMS, INC., a North Carolina corporation (“Guarantor”) to and for the benefit of GE LIFE AND ANNUITY ASSURANCE COMPANY, a Virginia corporation (“Lender”).

BACKGROUND

A. A4 REALTY, LLC, a North Carolina limited liability company (“Borrower”, has applied to Lender to assume a loan (“Loan”) in the original principal amount of Four Million Four Hundred Thousand and No/100 Dollars (\$4,400,000.00). The Loan is evidenced by a Promissory Note (the “Note”) in the loan amount and is secured by a Deed of Trust, Assignment of Rents and Leases and Security Agreement (the “Deed of Trust”) on real property located in Wake County, North Carolina, commonly described as 5501 Dillard Road, Cary, North Carolina 27511-9234.

B. The Note, the Deed of Trust and any other documents executed in connection with the Loan, other than the Environmental Indemnity of even date, are referred to as the “Loan Documents.”

C. The assumption of the Loan is conditioned upon Guarantor’s execution and delivery to Lender of this Guaranty.

NOW, THEREFORE, in consideration of benefits to Guarantor from Borrower, the receipt and sufficiency of which are hereby acknowledged by Guarantor, and to induce Lender to make the Loan to Borrower, Guarantor agrees as follows:

1. **Unconditional Guaranty of Payment.**

- a. Guarantor unconditionally, absolutely and irrevocably guarantees the due and punctual payment of the principal and interest of the Note and any other moneys due or which may become due under the Note, the Deed of Trust and any other documents executed in connection with the Loan (collectively the “Loan Documents”), or any of them, and the due and punctual performance and observance by Borrower of all of the other terms, covenants and conditions of the Loan Documents, whether according to the present terms of any of those Documents or at any earlier or accelerated date or dates as provided therein, or pursuant to any extension of time, or any change or changes in the terms, covenants and conditions of the Loan Documents hereafter made or granted. All such principal, interest and other moneys and the performance and observance by Borrower of all such other terms, covenants and conditions are hereinafter collectively referred to as the “Indebtedness.”

2. Acknowledgements, Representations and Warranties.

- a. Guarantor acknowledges and agrees that:
 - (i) Guarantor either has reviewed, or has had an opportunity to review, the Loan Documents, and is otherwise fully familiar with the terms of the Loan;
 - (ii) This Guaranty constitutes an obligation to Lender which is separate and distinct from the obligation of Borrower to Lender under the Loan Documents; and
 - (iii) Guarantor is signing this Guaranty as an inducement to Lender to make the Loan, and further acknowledges that Lender would not make the Loan without this Guaranty.
- b. Guarantor represents and warrants to Lender that Guarantor is either financially interested in Borrower or will receive other benefits from Borrower as a result of this Guaranty.

3. Waivers by Guarantor and Rights of Lender. Guarantor agrees that Lender may deal exclusively with Borrower in all matters relating to the Loan without notice to or the approval of Guarantor. It is intended that Guarantor shall remain unconditionally, absolutely and irrevocably liable hereunder for payment and performance of the Indebtedness regardless of any act or omission which might otherwise directly or indirectly result, by operation of law or otherwise, in the discharge or release in whole or in part of Borrower, Guarantor or any other person, or the discharge, release or impairment of any collateral (the "Collateral") now or hereafter held as security for any of the obligations under the Loan Documents or this Guaranty. Without limiting the generality of the foregoing, Guarantor hereby waives the following and agrees that Lender may do or fail to do any of the following one or more times, without notice to or the approval of Guarantor, all without diminishing, altering or otherwise affecting the unconditional, absolute and irrevocable liability of Guarantor hereunder:

- a. Guarantor waives notice of Lender's acceptance of this Guaranty;
- b. Guarantor waives notice of Lender's advances of Loan funds, extension of credit to Borrower and any payment of obligations of Borrower;
- c. Guarantor waives notice of default under the Loan Documents;
- d. Lender may extend, renew, accelerate or otherwise change the time for payment and performance of any of Borrower's obligations under the Loan Documents and may otherwise modify and change the terms, conditions and covenants of the Loan Documents, including without limitation increase or decrease of the rate of interest on the Loan, provided, however, that nothing in this clause (d) is intended to grant Lender the right to make any such modification of change without the approval of Borrower unless Lender has the right to do so without Borrower's approval under the Loan Documents or as a matter of law;

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- e. Lender may release Borrower, any guarantor or any other person now or hereafter having any liability under the Loan Documents;
 - f. Lender may take and hold Collateral for payment and performance of the Indebtedness, and may release, surrender, substitute, take additional, or exchange, any such Collateral Lender now holds or may later acquire;
 - g. Lender does not have to marshal assets and may direct the order or manner of sale of the Collateral as Lender in its discretion may determine;
 - h. Lender may apply any money or Collateral to the repayment of any obligations due to Lender under the Loan Documents in any order Lender in its discretion may determine.
 - i. Lender may forbear from pursuing Borrower, or any other guarantor or any other person, or forbear from foreclosing or otherwise realizing upon any Collateral or other guaranty;
 - j. Lender may impair or fail to perfect a security interest in any Collateral;
 - k. Lender may sell Collateral in any manner Lender in its discretion may determine, without notice to Guarantor and whether or not such sale is commercially reasonable;
 - l. Guarantor waives any defense arising out of the absence, impairment, or loss of any or all rights of recourse, reimbursement, contribution, subrogation or any other right or remedy of Guarantor against Borrower, or any other guarantor, or any other person to recover amounts which Guarantor is obligated to pay under this Guaranty;
 - m. Guarantor waives any defense based upon election of remedies and any anti-deficiency statute, it being intended that this Guaranty shall survive any and all realization upon Collateral. Such waiver shall include without limitation any defense that a foreclosure of Collateral, whether judicial or nonjudicial, discharged Guarantor's obligations under this Guaranty;
 - n. Guarantor waives any defense arising by reason of any invalidity, ineffectiveness or unenforceability of all or any portion of the Loan Documents or on the basis of any other defense (other than full payment in cash of any monetary obligation or full performance of any other obligation) available to Borrower, any other guarantor or any other person;
 - o. Guarantor waives any defense arising out of lack of diligence or out of delay in enforcement, collection or realization under the Loan Documents;
 - p. Guarantor waives demand for payment, demand for performance, notice of non-payment, notice of non-performance, presentment, protest, notice of dishonor, and indulgences and notices of every other kind; and

- q. Guarantor hereby waives (i) any defense arising because of Lender's election, in any proceeding instituted under the Federal Bankruptcy Code, of any application of Section 1111(b)(2) of the Federal Bankruptcy Code, and (ii) any defense based on any borrowing or grant of a security interest under Section 364 of the Federal Bankruptcy Code.
4. Lender's Right not to Proceed Against Borrower, Other Person or Collateral; Lender's Remedies. This Guaranty may be enforced against Guarantor without attempting to collect (or without exhausting its efforts to collect) from Borrower, any other guarantor or any other person who may be liable for the Indebtedness, and without attempting to enforce (or without exhausting its efforts to enforce) Lender's rights in any Collateral. Lender may exercise its remedies available under this Guaranty and the Loan Documents and available at law and in equity in such order as Lender in its discretion may determine. Lender may join Guarantor in any suit in connection with the Loan Documents or may proceed against Guarantor in a separate action. If suit, sale, foreclosure or other remedy is availed of, only the net proceeds therefrom after deducting all charges and expenses of any kind and nature whatsoever, shall be applied to the reduction of the Indebtedness, and Lender shall not be required to institute or prosecute proceedings to recover any deficiency as a condition of payment under or enforcement of this Guaranty. At any sale of Collateral, Lender may, at its discretion, purchase all or any part of such Collateral and apply against the amount bid therefore an equal amount of the Indebtedness.
5. Bankruptcy and Assignment of Rights. Guarantor's obligation to make payment under the terms of this Guaranty shall not be impaired, modified, changed, released or limited in any manner by any impairment, modification, change, release, defense or limitation of the liability of Borrower or of a receiver, trustee, debtor in possession or estate under any bankruptcy, receivership or insolvency proceeding. If any payment of the Indebtedness made by Borrower is reclaimed in a bankruptcy or receivership proceeding, Guarantor shall pay to Lender the dollar amount of the amount reclaimed. Guarantor hereby assigns to Lender all rights Guarantor may have in any proceeding involving Borrower under any federal bankruptcy act or state receivership proceedings, whether or not such rights relate to this Guaranty. Such assignment shall not diminish, alter or otherwise affect Guarantor's liability under this Guaranty.
6. Guarantor's Duty to Keep Informed of Borrower's and Others' Financial Condition. Guarantor is now adequately informed of Borrower's financial condition. Guarantor has established adequate means of obtaining, and will obtain from Borrower in the future, all financial and other information regarding Borrower, any other guarantor, any other person and the Loan as is deemed appropriate by Guarantor. Lender shall have no obligation, now or in the future, to provide any such information to Guarantor.
7. Survival of Claims. Guarantor acknowledges that, to the extent permitted by law, certain obligations of Borrower under the Loan Documents, including with limitation indemnity obligations relating to hazardous substances, shall survive payment of the Indebtedness and foreclosure of Collateral. Guarantor covenants and agrees that, to the extent permitted by law, and subject to the limitations of paragraph 1 above, Guarantor's

guaranty of such obligations of Borrower shall also survive payment of the Indebtedness and foreclosure of Collateral.

8. Waiver of Right of Subrogation. Until the Indebtedness shall have been paid and performed in full, Guarantor shall have no right of subrogation, and Guarantor waives any right to enforce any remedy which Lender now has or may hereafter have against Borrower, any other guarantor or any other person, and waive any benefit of, and any right to participate in, any of the Collateral.
9. Subordination of Debt. Any debt of Borrower now or hereafter held by Guarantor is hereby subordinated to the Indebtedness, and such debt, if Lender so requests, shall be collected, enforced and received by Guarantor as trustee for Lender and be paid over to Lender on account of the Indebtedness, but without reduction or affecting in any manner the liability of Guarantor under the other provisions of this Guaranty.
10. Attorneys' Fees and Collection Expenses. Guarantor agrees to reimburse Lender on demand for all fees and other costs and expenses incurred by Lender in collecting, enforcing or defending this Guaranty, together with interest thereon from date of disbursement at the default rate of interest stated in the Note. Such fees, costs and expenses shall include those incurred with or without suit and in any trial, any appeal therefrom or review thereof, any proceedings under any present or future federal bankruptcy or state receivership proceeding and any post-judgment collection proceedings.
11. Payment of Loan; Effect of Bankruptcy. Except as otherwise provided in paragraphs 3 and 7 above, this Guaranty shall terminate upon payment and performance in full of the Indebtedness; provided, however, that it shall be automatically reinstated if any payment is reclaimed in a bankruptcy or receivership proceeding, until Guarantor pays Lender the amount reclaimed or the amount is otherwise paid to Lender and is not subject to further reclamation.
12. Binding Effect. This Guaranty shall be binding upon and enforceable against Guarantor, Guarantor's legal representatives, heirs, successors and assigns, and shall inure to the benefit of and may be enforced by Lender and Lender's successors and assigns.
13. Assignment. Lender may assign the Loan Documents and this Guaranty, or any of them, in whole or in part, and may grant participations therein, without notice to Guarantor and without affecting Guarantor's liability under this Guaranty.
14. Construction. Unless some other meaning and intent is apparent from the context, the plural shall include the singular and vice versa, and masculine, feminine and neuter words shall be used interchangeably.
15. Governing Law; Jurisdiction. This Guaranty shall be governed by and construed according to the laws of the State of North Carolina. Guarantor consents to the jurisdiction of the courts of the State of North Carolina.

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16. Joint and Several Liability; Independent Obligations. The obligations under this Guaranty of all persons included within the term “Guarantor” are joint and several. The obligations of each Guarantor are independent of those of Borrower, any other guarantor and any other person, and a separate action or actions may be brought and prosecuted against Guarantor, or any of them, whether action is brought against any other Guarantor, Borrower or any other person.
 17. Entire Agreement; Modifications. This agreement constitutes the entire understanding between Lender and Guarantor and no course of prior dealing between the parties, no usage of trade, and no parol or extrinsic evidence of any nature shall be used to supplement or modify the terms of this Guaranty. This Guaranty may be changed, modified or supplemented only through a writing signed by Guarantor and Lender.
 18. Invalid Provisions. If any provision of this Guaranty is invalid, illegal or unenforceable, such provision shall be considered severed from the rest of this Guaranty and the remaining provisions shall continue in full force and effect as if the invalid provision had not been included.
 19. Counterparts. This Guaranty may be executed in counterpart originals.

A4 HEALTH SYSTEMS, INC.,
a North Carolina Corporation

By: /s/ John P. McConnell
JOHN P. McCONNELL
Chief Executive Officer

**NONCOMPETITION, NONSOLICITATION AND STOCK SALE
FORBEARANCE AGREEMENT**

This **NONCOMPETITION, NONSOLICITATION AND STOCK SALE FORBEARANCE AGREEMENT** (this "Agreement"), dated as of January 18, 2006, is by and among Allscripts Healthcare Solutions, Inc., a Delaware corporation (the "Parent"), John P. McConnell ("JPM") and McConnell Venture Partners Fund, LLC (together with JPM, the "Shareholders").

WHEREAS, the Shareholders are the owners of capital stock (the "Shares") of A4 Healthcare Solutions, Inc., a North Carolina corporation (the "Company");

WHEREAS, Parent, Quattro Merger Sub Corp., a North Carolina corporation and a wholly-owned subsidiary of Parent ("Sub"), the Company and the shareholder representative named therein propose to enter into an Agreement of Merger (the "Merger Agreement"), which provides, upon the terms and subject to the conditions thereof, for the merger of Sub with and into the Company (the "Merger");

WHEREAS, as an inducement to Parent and Sub to enter into the Merger Agreement, Parent has requested that the Shareholders enter into, and in order to induce Parent and Sub to enter into, the Merger Agreement the Shareholders have agreed to enter into certain arrangements with respect to the Shareholders' business activities following the Merger; and

WHEREAS, the execution of the Merger Agreement by Parent and Sub is a precondition for the Shareholders to receive any consideration in connection with the Merger;

NOW, THEREFORE, in consideration of the premises, the mutual promises set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Effectiveness of Agreement. This Agreement shall become effective as of the time of effectiveness of the Merger (the "Effective Time"), and this Agreement shall terminate upon the termination of the Merger Agreement in accordance with the terms thereof.

2. Restrictive Covenants.

2.1. Confidentiality. Each Shareholder understands and acknowledges that such Shareholder has had access to and has learned (a) information proprietary to the Company and the Subsidiaries with respect to the business of developing, marketing or providing (i) clinical information software or systems, including emergency department information systems, (ii) electronic medical records software or systems, (iii) physician practice management software or systems, (iv) care management solutions, (v) healthcare disaster recovery solutions, or (vi) patient portal solutions (the "Business") and (b) other information proprietary to the Company and its subsidiaries, including, without limitation, trade secrets, processes, patent and trademark applications, product development, price, customer and supply lists, pricing and marketing plans,

policies and strategies, details of client and consultant contracts, operations methods, product development techniques, business acquisition plans and all other confidential information with respect to the Business (collectively, “Proprietary Information”). Each Shareholder agrees that, from and after the Effective Time for a period of four (4) years thereafter, such Shareholder (i) will keep confidential all Proprietary Information, (ii) will not, directly or indirectly, disclose any Proprietary Information to any third party or use any Proprietary Information in any way and (iii) will not, directly or indirectly, misuse, misappropriate or exploit any Proprietary Information in any way. The restrictions contained in this Section 2.1 shall not apply to any information which (x) is at the Effective Time or thereafter becomes available to the public other than as a result of a disclosure, directly or indirectly, by the Shareholders, or (y) is required to be disclosed by applicable requirements of law, provided that, in such event, each Shareholder shall use reasonable efforts to give reasonable advance notice of such requirement to Parent to enable Parent or the Company to seek a protective order or other appropriate remedy with respect to such disclosure.

2.2. Restrictions on Competitive Activities. Each Shareholder further agrees that, from and after the Effective Time for a period of four years thereafter, each Shareholder shall not, directly or indirectly, (whether as principal, agent, employee, consultant, independent contractor, partner or otherwise) own, manage, operate, control, participate in, perform services for or otherwise carry on a business similar to or competitive with the Business anywhere in the United States (it being understood by the parties hereto that the Business is not limited to any particular region because such Business has been conducted by the Company throughout the United States and the prohibited activities may be engaged in effectively from any location in the United States). Notwithstanding the foregoing, nothing set forth in this Section 2.2 shall prohibit each Shareholder from owning not in excess of two percent (2%) in the aggregate of any class of capital stock of any corporation if such stock is publicly traded and listed on any national or regional stock exchange or on the Nasdaq Stock Market.

2.3. Restrictions on Solicitation; No-Hire. Each Shareholder further agrees that, from and after the Effective Time for a period of three (3) years thereafter, each Shareholder shall not, directly or indirectly: (a) deliberately take any action that would interfere with (i) any contractual or customer relationship of the Company or its Affiliates in respect of the Business or (ii) any relationship of the Company or its Affiliates with its respective employees in respect of the Business or (b) solicit the services of or hire (as employee, consultant or otherwise) or seek to cause to leave the employ of the Company or any of its Affiliates any employee of the Company during employment of such employee by the Company or its Affiliates. For purposes of this Agreement, “Affiliate” shall mean, with respect to any person, any other person which directly or indirectly controls, is controlled by or is under common control with such person. Notwithstanding the foregoing, each Shareholder shall not be subject to the restrictions contained in this Section 2.3 with respect to each of John McConnell, Jr., Rob Brady, Laura Brady and Faith Jennings.

2.4. Remedies. In the event any Shareholder violates any of its obligations under this Section 2, Parent or the Company may proceed against such Shareholder in law or in equity for such damages or other relief as a court may deem appropriate. Each Shareholder acknowledges that a violation of this Section 2 may cause Parent or the Company irreparable

harm which may not be adequately compensated for by money damages. Each Shareholder therefore agrees that in the event of any actual or threatened violation of this Section 2, Parent or the Company shall be entitled, in addition to other remedies that it may have, to a temporary restraining order and to preliminary and final injunctive relief against such Shareholder to prevent any violations of this Section 2, without the necessity of posting a bond. The prevailing party in any action commenced under this Section 2 shall also be entitled to receive reasonable attorneys' fees and court costs. It is the intent and understanding of each party hereto that if, in any action before any court or agency legally empowered to enforce this Section 2, any term, restriction, covenant or promise in this Section 2 is found to be unreasonable and for that reason unenforceable, then such term, restriction, covenant or promise shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

3. Stock Sale Forbearance. Each Shareholder hereby covenants and agrees that, for a period of one year beginning on the Closing Date (as defined in the Merger Agreement), such Shareholder will not, without the prior written consent of Parent, offer, sell, contract to sell, pledge or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition by such Shareholder or any Affiliate of such Shareholder of), directly or indirectly, any shares of common stock, par value \$0.01 per share, of Parent ("Parent Common Stock") acquired by such Shareholder in connection with the Merger (the "Merger Shares"); provided, however, that if after the six-month anniversary of the Effective Time, the closing price of shares of Parent Common Stock is in excess of \$20 per share for 10 consecutive trading days (the "Trading Price Condition"), each Shareholder shall be entitled to sell up to an aggregate of 5% of such Shareholder's Merger Shares in any three-month period commencing on the date on which the Trading Price Condition is achieved.

4. Release. Except as set forth in the following sentence and subject to the limitations set forth therein, each Shareholder will, and hereby does, effective as of the Effective Time, release and forever discharge the Company, A4 Realty, LLC, a North Carolina limited liability company ("Subsidiary"), and their respective officers, directors, employees, Affiliates, agents and representatives from any and all actions, suits, debts, liens, sums of money, accounts, judgments, claims and demands whatsoever, at law or in equity, either in contract or in tort, whether known or unknown, on account of, arising out of or relating to any act or omission of any kind or character whatsoever of the Company, Subsidiary or any predecessor of the Company or Subsidiary occurring on or prior to the effective date of the Merger (the "Effective Date") or any operations of the Company's, Subsidiary's or any of their respective predecessor's businesses on or prior to the Effective Date, including the calculation and payment of any and all accrued and unpaid dividends with respect to any Shares; provided, however, that such claims shall not include claims arising solely out of the Merger Agreement and/or any agreement, instrument, or document being or to be executed and delivered by the Shareholder under the Merger Agreement. Notwithstanding the foregoing, each Shareholder reserves any rights such Shareholder may now have or ever has had in its capacity, if applicable, as a director, officer, employee or agent of the Company or Subsidiary to be indemnified against liabilities, or to benefit from provisions limiting such Shareholder's liability, to the extent provided in the Amended and Restated Articles of Incorporation of the Company, the Company's Bylaws or any indemnification agreements entered into between the Company or Subsidiary and such Shareholder.

5. Notices. All notices or other communications required or permitted hereunder shall be in writing and shall be deemed given or delivered when delivered personally or three (3) business days after being sent by registered or certified mail or by private overnight courier addressed as follows:

If to Parent, to:

Allscripts Healthcare Solutions, Inc.
222 Merchandise Mart Plaza
Suite 2024
Chicago, Illinois 60654
Attention: President

with a copy to:

Sidley Austin LLP
One South Dearborn Street
Chicago, Illinois 60603
Attention: Gary D. Gerstman

if to either Shareholder to:

John P. McConnell
1108 Silver Oaks Court
Raleigh, North Carolina 27614

with a copy to:

Wyrick Robbins Yates & Ponton LLP
4101 Lake Boone Trail, Suite 300
Raleigh, North Carolina 27607
Attention: Larry E. Robbins

or to such other address as such party may indicate by a notice delivered to the other party hereto.

6. Miscellaneous.

6.1. Amendment; Waiver. This Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the parties hereto. No failure to exercise, and no delay in exercising, any right, power or privilege hereunder shall operate as a waiver thereof. No waiver of any breach of any provision of this Agreement shall be deemed to be a waiver of any preceding or succeeding breach of the same or any other provision.

6.2. Binding Effect; Assignment. The rights and obligations of this Agreement shall bind and inure to the benefit of any successor of Parent by reorganization, merger or consolidation, or any assignee of all or substantially all of Parent's business and properties. Parent may assign its rights and obligations under this Agreement to any of Parent's Affiliates without the consent of the Shareholders. Each Shareholder's rights or obligations under this Agreement may not be assigned by such Shareholder.

6.3. Headings. The headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

6.4. Jurisdiction. Each party irrevocably agrees that any action, suit or proceeding arising out of or related to this Agreement shall be brought only in a federal or state court located in Chicago, Illinois (and waives any objection based on forum non conveniens or any other objection to venue therein), and the specific choice between the foregoing shall be determined by the party initiating such action, suit or proceeding. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

6.5. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (as opposed to the conflicts of law provisions) and public policy of the State of Illinois.

6.6. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.7. Entire Agreement. This Agreement constitutes the entire understanding and agreement of the parties with respect to the subject matter of this Agreement.

* * * * *

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

**ALLSCRIPTS HEALTHCARE
SOLUTIONS, INC.**

By: /s/ Lee Shapiro

Name: Lee Shapiro

Title: President

JOHN P. MCCONNELL

/s/ John P. McConnell

John P. McConnell

**MCCONNELL VENTURE PARTNERS
FUND, LLC**

By: /s/ John P. McConnell

Name: John P. McConnell

Title: Partner

Noncompetition, Nonsolicitation and Stock Sale Forbearance Agreement

Certification

I, Glen E. Tullman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allscripts Healthcare Solutions, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2006

/s/ Glen E. Tullman
Chairman and Chief Executive Officer

Certification

I, William J. Davis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allscripts Healthcare Solutions, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2006

/s/ William J. Davis
Chief Financial Officer

